Agriculture and Agri-Food Canada / Agriculture et Agroalimentaire Canada

Evaluation of the Administrative Aspect of the *Agricultural Marketing Programs Act* Legislated Programs

Office of Audit and Evaluation

November 17, 2011

Agridoc # 2893600

Canada

The AAFC Evaluation Committee recommended this evaluation report for approval by the Deputy Minister on November 17, 2011.

To obtain more information on the Office of Audit and Evaluation, please visit:

http://www.agr.gc.ca/aud_eval

Cat. No. A22-554/2011E-PDF
ISBN 978-1-100-19823-1
AAFC No. 11674E

Aussi offert en français sous le titre : Évaluation sur les programmes de commercialisation agricole

Table of Contents

Tables

Acronyms

AAFC	Agriculture and Agri-Food Canada
ABC	Activity-based costing
AGA	Advance Guarantee Agreement
AMPA	*Agricultural Marketing Programs Act*
APA	Advance Price Agreement
APP	Advance Payments Program
APPEDS	Advance Payments Program Electronic Delivery System
ATIP	Access to Information and Privacy
BRM	Business risk management
CALA	*Canadian Agricultural Loans Act*
COPE	Centre of Program Excellence
CSBF	Canada Small Business Financing Program
FCC	Farm Credit Canada
FGPD	Financial Guarantee Programs Division
HILLRP	Hog Industry Loan Loss Reserve Program
MISB	Market and Industry Services Branch
NPO	Non-pay operating
OAE	Office of Audit and Evaluation
PPP	Price Pooling Program
RCS	Review Committee Summary
RSLLRP	Ruminant Slaughter Loan Loss Reserve Program
SME	Small and medium enterprises
TBS	Treasury Board Secretariat

Executive Summary

Agriculture and Agri-Food Canada's (AAFC) Office of Audit and Evaluation evaluated the administrative aspect of the *Agricultural Marketing Programs Act* (*AMPA*) legislated programs which includes the Advance Payment Program (APP) and the Price Pooling Program (PPP). The purpose of this evaluation was to examine the program efficiency of the APP and the PPP from 2006-07 to 2010-11 as required by the Treasury Board (TB) Policy on Evaluation. During the same period, the Financial Guarantee Programs Division (FGPD) conducted a review of the APP and the PPP, with a particular focus on relevance and performance. The *AMPA* is regulated by legislation to be reviewed every five years, with the next five-year review period ending in November 2011.

Advance Payment Program and Price Pooling Program

The APP and the PPP derive their authority from the *AMPA*, which was passed by Parliament in 1997. The objective of the Act is to facilitate and improve market opportunities for agricultural products of eligible producers.

The APP is a marketing program with the purpose of improving producer opportunity to sell when prices are most favourable. This is accomplished by providing access to loan guarantees on cash advances made by third-party producer organizations (known as administrators) to producers. Producers can access up to $400,000 in advances, of which $100,000 is interest-free, while the remaining $300,000 is interest-bearing. Advances must be repaid upon sale of the commodity or within 18 months, whichever comes first. For production cycle 2009-10, 51 administrators processed $2 billion worth of advances for 29,177 producers.

The PPP, on the other hand, provides a price guarantee to protect marketing agencies and producers against unanticipated declines in the market price of their products. The program also provides security for marketing agencies in obtaining financing. The program is designed to improve the cash flow of producers through an initial payment for products delivered and provides equal returns to producers for products of similar grades, varieties, and types. The PPP is delivered by AAFC under agreements with marketing agencies. For the 2009–10 production cycle, AAFC had PPP agreements with six producer organizations that offered combined price guarantees of $53 million.

Both the APP and the PPP are administered by the FGPD within AAFC.

Methodology

The evaluation gathered quantitative and qualitative data using the following lines of evidence: document and financial data review; database review; key informant interviews with program, departmental and federal officials; and activity-based costing with the FGPD staff.

Key Findings

The evaluation resulted in the following key findings:

- Administrative costs for the APP have been decreasing over the past five years.
- The APP's program costs are influenced by fluctuating interest rates and defaults that in turn influence AAFC's financial liability under the program.
- AAFC has had administrative challenges in honouring and recovering defaults which have increased program costs and impacted the program's efficiency.
- Some data contained in the Advance Payment Program Electronic Delivery System (APPEDS) is not necessarily up-to-date or reliable, and could be contributing to a duplication of efforts in terms of program administration.
- While the FGPD is currently meeting its three service standards, opportunities exist to further strengthen program monitoring and reporting (potentially using the APPEDS).
- The APP's operating costs are comparable or less than those of other federal loans programs with similar delivery mechanisms and objectives.
- While alternative delivery models for the APP and the PPP exist, there are risks associated with these models that could offset any program efficiencies to be gained.
- Opportunities exist to improve the APP's efficiency by clarifying and adjusting the parameters for the number of third party administrators and the duration of Advance Guarantee Agreements.

Recommendations

The evaluation recommends that:

1. The Financial Guarantee Programs Division should report on its progress on processing default files to senior management as it impacts program efficiency and AAFC's financial liability.
2. The Financial Guarantee Programs Division, in consultation with the Information Systems Branch, should conduct a review of the Advance Payments Program Electronic Delivery System (APPEDS) that would explore opportunities to improve the use of the APPEDS. As well, the FGPD should provide thorough training to program staff and administrators so that the APPEDS can be better utilized for program monitoring and performance analysis.
3. The Financial Guarantee Programs Division should track and report the time required to process claims and defaults (potentially using the APPEDS) to assist in monitoring the efficiency of its processes.
4. The Financial Guarantee Programs Division should review the length of the Advance Guarantee Agreements that are set-up with administrators and should review the parameters for identifying the number of third party administrators to ensure they support program efficiency.

1.0 Introduction

1.1 Background

Agricultural cash advance programs were first implemented in Canada in the 1950’s to help producers market their crops in an orderly manner. The programs were meant to ensure that the industry has timely and broad access to credit, thereby reducing the risk of producers being forced to make operating and marketing decisions based solely on the need for working capital, and ultimately increasing producers’ incomes.

The *AMPA* is a Federal Act establishing programs to facilitate and improve market opportunities for agricultural products of eligible producers through the provision of loan and price guarantees. It is comprised of three federally delivered programs (APP, PPP and Government Purchase Program (GPP)). The *AMPA* gives authority to these three programs and does not require matching contributions from provinces or territories.

The *AMPA* received royal assent in 1997 to replace the *Advance Payments for Crops Act* and the *Prairie Grain Advance Payments Act*. The legislation also re-introduced the interest-free provision of up to $50,000 per producer.

The APP is a marketing program with the purpose of improving producer opportunity to sell when prices are most favourable. This is accomplished by providing loan guarantees on cash advances made by administrators to producers.

The PPP is designed to facilitate the marketing of agricultural products under a cooperative plan. Under the program, AAFC enters into price guarantee agreements with marketing agencies (associations of producers, processors, or selling agents) to provide a price guarantee for products sold against unanticipated declines in the market price of their products. The agreement covers the initial payment made to producers, plus costs incurred by the agencies to market the product. The price guarantee is set to no more than 65% of the expected average wholesale price of the product as outlined in the price guarantee agreements.

The third program, the GPP, provides the Minister of AAFC with the authority to purchase and sell agricultural and agri-food products. The GPP authority would be used during extremely unusual market conditions where, by intervening in the market, the Minister would be able to influence some degree of market stability. Since the enactment of the *AMPA*, the Minister has not used the authority granted under the GPP and, therefore, it is not a program that is offered to the agriculture and agri-food sector on an ongoing basis. The GPP has had no activities or outcomes that can be measured and, therefore, was not included in the evaluation. Furthermore, it does not have any direct program spending that would make an evaluation mandatory, pursuant to the Treasury Board Policy on Evaluation (2009).

1.2 Evaluation Scope

During the period of this evaluation, the FGPD conducted a program review of the *AMPA*, including the APP and the PPP that included the relevance, impact, and performance of these legislated programs. The OAE evaluation was focused on assessing the administrative aspect of the *AMPA* in accordance with section 6.1.8[1] of the Treasury Board (TB) Policy on Evaluation.

Covering the period of April 1, 2006 to March 31, 2011, the evaluation focused on:

- Costs associated with each activity and output for the APP and the PPP;
- Efficiency of the APP and the PPP administration;
- Factors that impact the efficiency of the APP and the PPP;
- A comparison of administrative costs of the APP and the PPP with other similar federal program activities; and
- Use of information management systems to assess and monitor the efficiency of program operations.

The evaluation focused primarily on the APP given that 97% of total FGPD's resources are used to deliver the APP.

1.3 Methodology

Conducted from October 2010 to August 2011, the evaluation drew on the following four lines of evidence:

- *Document and financial data review.* The review of program documents informed the development of a profile of the APP and the PPP and provided documented evidence for this evaluation. Additionally, to draw comparisons between the administrative costs of the APP and the PPP and other similar programs, documented information was gathered on the operating costs of other similar federal programs. (A list of documents reviewed is available in Appendix B.)

[1] TB *Policy on Evaluation*, section 6.1.8, requires deputy heads to ensure that evaluation coverage includes the administrative aspect of major statutory spending.

- *Database review.* The APP and the PPP both maintain separate administrative databases. These databases were reviewed to provide a profile of program activity. Additionally, information from these databases was combined with other data sources to assess program efficiency. The database review examined data holdings, integrity, and reliability. The review analysed completed data for the 2007, 2008 and 2009 production cycles.

- *Key informant interviews.* A total of 14 interviews were completed with representatives of the following groups: senior management (n=3), program officials (n=8), and other AAFC divisions (n=3). All interview responses were kept anonymous. The sample was selected with consideration from program management that provided sufficient representation to assess factors impacting program costs, monitoring and reporting and delivery. (Copies of the interview guides are available in Appendix C).

- *Activity-based costing (ABC).* This activity involved surveying program officials on the amount of time they spent on various program activities. Three preliminary interviews with program officials were conducted to inform the development of a questionnaire. Twenty nine of the 38 FGPD staff completed the questionnaire. (A copy of the guide for the preliminary interviews and the questionnaire appear in Appendix D).

1.4 Evaluation Constraints

The evaluation faced three constraints. The first constraint is that the APP data for 2010 was incomplete because the production period was still in process. The APPEDS was implemented in 2006-07 and has complete data for production periods 2007, 2008 and 2009. Prior to the implementation of the APPEDS, data was not as complete and reliable; therefore, data from 2007 to 2009 was used for this evaluation. The three years of loan data, along with the document and financial review, provided sufficient evidence to examine program efficiency.

The second constraint is that AAFC does not reimburse the third-party administrators that deliver the APP for administrative expenses. These costs are covered by an application fee charged to producers by administrators that ranges from $150 to $3,000 per application per commodity[2]. The FGPD confirmed that they have no control over the application fee charged by administrators, the only constraints to administration fees comes from the AMPA which states that administrators

[2] Source: FGPD program management

may charge a fee only for the purpose of recovering their administrative costs. The evaluation did not use these costs to assess program efficiency. When comparing the APP to other federal government programs, this was noted as a constraint as it did not allow for an equal comparison between programs.

The third constraint is that the operating expenses for the APP and the PPP are not tracked separately. Although the FGPD provided a total estimate of the salaries and NPO associated with the PPP, it is not possible to separate individual costs for the two programs. To better understand the human resource requirements for the APP and the PPP, an activity-based costing survey was conducted to determine the amount of time spent on various activities per program per employee. Since one FTE is associated with the PPP, which has very little activity and output, the evaluation assessed the APP and the PPP together.

The last constraint relates to the challenge of calculating efficiency ratios when the APP fiscal year and production periods vary in length. As shown in the figure below, AAFC's fiscal year covers a 12-month period from April to March whereas the APP production period covers an 18-month period from April to the following September. Consequently, in each fiscal year, the program incurs costs related to two production periods. Therefore, the evaluation examined program data on a government fiscal cycle (12 month period) to assess program efficiency.

Fiscal years and program periods

	2007				**2008**				**2009**			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Fiscal year	FY 2007				FY 2008				FY 2009			
Production year	PY 2006											
	PY 2007											
					PY 2008							
									PY 2009 (to Sep 2010)			

2.0 Program Profile

2.1 Advance Payments Program

The APP is a long-standing program that operated under different authorities up to 1997, when a previous program (Cash Flow Enhancement Program) and two Acts (*Advance Payments for Crops Act* and the *Prairie Grain Advance Payments Act*) were amalgamated and updated to become the *AMPA*[3]. The objective of the APP is to increase producers' marketing opportunities by providing them with improved cash flow. It accomplishes this by guaranteeing loans to over 52 third-party producer organizations who then issue pre and post-production advances to producers.

The *AMPA* has been amended several times. First in 2006, to increase the interest free advance limits (from $50K to $100K), to increase the loan limit (from $250K to a maximum of $400K), to extend the production period (from 12 months to 18 months) and to make the program available to animal producers. The *AMPA* was amended again in 2008, to introduce emergency advances for "severe economic hardship" and to create a new category for livestock.

Through the APP, producers can obtain cash advances on eligible commodities. These advances provide producers with improved cash flow and enable them to delay the marketing of their products until prices are more favourable. Producers can access up to $400,000 in advances, of which $100,000 is interest-free and $300,000 is interest-bearing. Advances cannot exceed 50% of the market value of the product, as estimated by the Minister of Agriculture. Advances must be repaid upon sale of the commodity or within 18 months, whichever comes first.

Producer organizations, known as administrators, deliver the APP through Advance Guarantee Agreements (AGA) with the federal government. The federal government covers the interest costs up to $100,000 and guarantees repayment of the loan, thus providing producer organizations with the ability to obtain lower interest rates for their producers from financial institutions. About 52 third-party administrators currently deliver the program.

To participate in the APP, the producer must own and be responsible for marketing the agricultural product, must give highest priority ranking of agricultural product or business risk management (BRM) program receipts to the administrator,[4] cannot be in default under an APP repayment

[3] Additional information about the APP is available in Appendix E.

[4] This is accomplished by having the producer's lender and/or supplier sign a priority agreement.

agreement, and must not have sought out protection under insolvency or bankruptcy-related statutes if the producer has not met all of its obligations under the repayment agreement.

Successful producer applicants are required to enter into a repayment agreement and provide security for the advance. Security includes, for example, the commodity itself (e.g., livestock or crop in storage), or where the product has not yet been harvested, Production Insurance, or AgriStability payments.

2.2 Program Governance

As stated above, the APP cash advances are intended to provide producers with a flow of cash prior to bringing their commodities to market, which gives them the flexibility to sell their agricultural products when market conditions are more favourable. These cash advances are not made by the APP staff, but are instead managed and paid out by third-party administrators, who are responsible for day-to-day interactions with producers.

The FGPD staff members involved in the APP fill a variety of roles including program executive, business development, finance, operations, management of administrators, and default management. Additionally, three staff members are assigned to the *AMPA* review (a detailed organizational structure is available in Appendix E).

Both the APP and the PPP are administered by the FGPD. In 2011, 37 of the 42 FGPD staff were involved in the APP, while one staff member worked on the PPP. The FGPD also manages other financial support programs such as the *Canadian Agricultural Loans Act* (CALA) Program, the Hog Industry Loan Loss Reserve Program (HILLRP), and the Ruminant Slaughter Loan Loss Reserve Program (RSLLRP).[5] The FGPD also provides salary and NPO support to the Recoveries Unit from Corporate Management Branch (CMB) and the Horticulture Group from the Market and Industry Services Branch (MISB).

2.3 Program Activities

The terms and conditions for the APP are embedded in the *AMPA* and in program guidelines that explain how the APP carries out its activities. The APP activities include:

[5] 37 staff members have indicated that most of their time is spent on the APP. Refer to the ABC in Appendix D.

a) **Design and managing Program**
   a. Meetings on management and policy issues
   b. Working groups (ad hoc)
   c. Updating administrator guidelines

b) **Preparing ministerial documents**

c) **Working with administrators**
   a. Submitting and assessing applications
   b. Approving applications via Review Committee Summaries
   c. Preparing Advance Guarantee Agreements
   d. Responding to questions/requesting information from administrators

d) **Processing interest claims**
   a. Reviewing and approving interest claims after reconciling and recalculating the interest (note: interest claims over $50,000 must be sent to AAFC Corporate Finance for review and release of payment)

e) **Managing defaults and recoveries**
   a. Requesting monthly reports on defaults provided by administrators

f) **Coordinating and following up on recipient audits**
   a. Conducting five recipient audits per year
   b. Conducting compliance visits
   c. Debriefing management
   d. Implementing and recommending action plans on the recipient audits

g) **Requesting/managing stays of default**
   a. Granting stays for producers on terms established by the Minister for producers who are unable to meet their terms of repayment where default is impending

h) **Performance and financial reporting**
   a. Ensuring administrator reports are sent to APP on time
   b. Developing a weekly status report on administrators' agreements, advances, repayments and emergency advances

i) **Other activities related to the APP**
   a. Building awareness and promoting the APP at trade shows

j) **Special projects**
   a. Attending to Access to Information and Privacy (ATIP) requests
   b. APPEDS maintenance

k) **Staff performance**
   a. Developing, reviewing and updating staff work plans

2.4 Program Outputs

Table 1 summarizes the APP's outputs from 2006-07 to 2010-11. The aggregate amount of annual guarantees offered to administrators through Advance Guarantee Agreements totals up to $3 billion per production cycle.[6] As shown in table 1, about 51 to 55 third-party administrators use the guaranteed loans to issue advances to producers. Between $1.6 billion and $2.7 billion was advanced to producers in the 2007 to 2010 production cycles. The amount of advances was higher in 2008 because $454 million in emergency advances were issued to cattle and hog producers experiencing "severe economic hardship."

Table 1: Program Outputs, 2006-07 to 2010-11

	2006–07	2007–08	2008–09	2009–10	2010–11
Number of administrators	*24	53	55	51	52
Total amount advanced ($B)	$0.35	$1.58	$2.73	$2.01	$1.57
Amount of interest-free advances ($B)	$0.30	$1.40	$2.03	$1.60	$1.27
Number of producers	13,284	30,946	35,089	29,177	25,054
Interest paid by fiscal year ($M)	$11.27	$33.96	$35.95	$14.40	$18.33
Defaults paid by fiscal year ($M)	$5.88	$14.65	$5.24	$19.35	$21.91

Source: APP Financial Summary and APPEDS
Note: Outputs based on 18 month production cycle, but captured here per fiscal year.
*Number accounts for mid-year as APP was being amended and changes were implemented in 2007.

Between 2007-08 and 2010-11, an average of almost 30,067 producers participated in the APP annually. Participation in the APP has been declining since 2008. Program officials, in their consultation with industry stakeholders, concluded this decline is mainly due to:

- Flooding in Western Canada, which reduced the seeded acreage in 2010 by 14.5% compared to 2009;
- High commodity prices, which have encouraged producers to sell their products at harvest; and
- Some cattle and hog producers may not have applied to the program in 2009 or 2010, as they received a stay of default for their 2008 advances (these do not have to be repaid until 2012 for cattle and 2013 for hogs).

2.5 Price Pooling Program

The objective of the PPP is to encourage and assist with the cooperative marketing of certain agricultural products through offering eligible cooperative marketing organizations the ability to provide a guaranteed

[6] APPEDS data.

initial price. This is expected to provide producers with a higher return than they could achieve on their own and improve producers' cash flow position.

Under the PPP, AAFC provides a price guarantee to marketing agencies, which they in turn use to secure loans for the purposes of providing an initial payment to producers for delivered products. The PPP is delivered by AAFC under agreements with the marketing agencies. Eligible associations/organizations are those involved in cooperative marketing of agricultural products or processed agricultural products, as defined by section 2(1) of the *AMPA*.

Through the PPP, marketing agencies are able to provide their producers with a fixed initial price for their product, with the price determined as a percentage not exceeding 65% of the expected average price. The government guarantees this price in the event of a price decline, thereby protecting the marketing agencies from price-induced losses, and provides them with the ability to secure reduced interest rates from their financial institutions. Through this guaranteed initial price, producers are guaranteed equal returns for the same product (same type, variety, grade). The agency determines the actual value of the product at the end of the year, including the storage and handling costs. Any shortfalls between the initial prices that the marketing agency offers and the actual average price received are covered by the federal government, while surpluses are either distributed to producers as a final payment or kept for future years.

From 2006 to 2010, as shown in Table 2, the PPP has had agreements with approximately 5 to 7 marketing agencies per year and have offered total guarantees of $46 to $68 million annually. (A detailed listing of all marketing agencies is available in Appendix F.)

Table 2: PPP Outputs, 2006 to 2010

	2006	2007	2008	2009	2010
Number of Marketing Agencies	6	7	6	6	5
Guarantees ($ million)	$67.67	$47.32	$59	$53.14	$47.99
Source: FGPD and PPP Financial Summary					

Overall, very little activity takes place in regard to the PPP, aside from annual agreements with marketing agencies. Furthermore, guaranteed commodity prices have not fallen below 65% of the expected average price since 1997, and therefore, there has been no claim against the PPP.

2.6 Program Expenditures

As shown in Table 3 between fiscal years 2006–07 and 2010–11, the APP and the PPP expenditures were $170.1 million. There have been no transfer payments made under the PPP since 1997.

Table 3: APP and PPP Program Expenditures, 2006–07 to 2010–11 ($millions)

	2006–07	2007–08	2008–09	2009–10	2010–11	Total
Administrative	$5.8	$3.5	$3.0	$3.0	$2.8	$18.1
Interest-related payments	$11.3	$34.0	$36.0	$14.4	$18.3	$114.0
Default-related payments	$5.9	$14.7	$5.2	$19.4	$21.9	$67
Total program cost	$22.9	$52.1	$44.2	$36.8	$43.1	$199.1
Recoveries from defaulted producers	($6.6)	($4.5)	($5.4)	($5.3)	($7.3)	($29.1)
Net payments*	$10.6	$44.1	$37.0	$28.5	$32.9	$151.9
Net cost**	$16.4	$47.6	$38.8	$31.5	$35.7	$170.1

Source: The APP and the PPP Financial Summary and APPEDS

* “Net payments” refers to the difference between “interest and default-related payments” and “recoveries from defaulted producers.”

** “Net cost” is the sum of “administrative” and “net payments.”

Note: While costs for the APP and the PPP are not tracked separately, AAFC estimates that $411,000 of the salary and NPO costs were associated with the PPP.

3.0 Evaluation Findings: APP

3.1 Efficiency

In assessing program efficiency, OAE looked at program operating costs including:

- A breakdown of costs by activity level that influence program operating costs;
- Program processes that affect overall efficiency; and
- Program monitoring and reporting.

The evaluation also examined alternative delivery models and undertook a comparison between the APP and the PPP operating costs and other federal loan programs with similar delivery mechanisms and objectives.

3.2 Program Operating Costs

Administrative costs for the APP have been decreasing over the past five years.

Based on program operating costs (see Table 5) and activity levels, efficiency was calculated based on the estimated costs associated with one unit of program activity.[7] However, it is important to recognize that the efficiency calculations only incorporate FGPD costs as opposed to costs of third party administrators. The following efficiency ratios represent benchmarks against which program efficiency was assessed.

- **Cost per administrator.** This is an important indicator of program efficiency as APP staff spend over half of their time working on administrator-related tasks, including processing applications, preparing Advance Guarantee Agreements (AGAs), and processing reports from administrators (e.g., Monthly Interest Claims, Monthly Default Reports, and End of Production Period Reports). Individual FGPD staff work with a varying number of administrators, ranging anywhere from two to ten or more. The number of administrators an individual staff member works with depends on the size (e.g., number of producers) and complexity (e.g., number of commodities) of the administrators.

  On average, the FGPD's operating cost per administrator was $58,272, including $28,705 in FGPD salaries. Between 2007-08 and

[7] As discussed in Section 1.4, costs were based on a 12-month fiscal year whereas program activity was based on an 18-month production year.

2010-11 the cost per administrator declined from about $65,849 to $54,038, shown in Table 4. One reason for the decline was that, although the number of administrators remained the same from 2007-08 to 2010-11, the FGPD operating costs fell by about $700,000. Largely, the decline in operating costs related to the decrease in the development and implementation costs of the APPEDS over a four year period.

The amount of support that administrators require directly influences the program's operating costs. The number of administrators an individual staff member can manage reflects the amount of support each administrator requires. Therefore, the less support required, the more administrators an individual staff member can manage. The FGPD attempts to control these costs by providing the administrators with the documentation and training they need to deliver the program efficiently.

- **Cost per producer.** About 30,000 producers participate in the APP annually. However, participation peaked at over 35,000 producers in 2008 due to the emergency advances that were made available to cattle and hog producers experiencing "severe economic hardship." In 2010-11, the number of producers fell to 25,054. Operating costs per producer have remained fairly stable at $103 to $112 per producer for the last two fiscal years.
- **Cost per $1 advanced.** Between $1.6 billion and $2.7 billion was advanced to producers in the 2007 to 2010 production cycles. The amount of advances was slightly higher in 2008 because $454 million in emergency advances were issued to cattle and hog producers. It costs the FGPD less than one cent per $1 advanced to producers.

Table 4: The APP Efficiency Calculations (2007-08 to 2010-11)

Cost	2007-08	2008-09	2009-10	2010-11
Cost per administrator	$65,849	$54,182	$59,020	$54,038
Cost per producer	$113	$85	$103	$112
Cost per $1 advanced	$0.002	$0.001	$0.001	$0.002
Source: The APP and the PPP Financial Summary and APPEDS				

Over the past five years, operating costs, as shown in Table 5, declined from $5.8 million in 2006-07 to $2.8 million in 2010-11 due to several reasons. The bulk of the decline in operating costs relates to the APPEDS. In 2006-07, the FGPD developed the APPEDS at a cost of $3.9 million. Between 2007–08 and 2010–11, another $3.8 million was spent maintaining and implementing the system over four years. The FGPD and administrators use APPEDS to track applications, advances, and defaults. It was designed to replicate the APP's former, paper-based program administration practices.

The evaluation did not cover the period prior to the implementation of the APPEDS; therefore, it was not possible to determine if the APPEDS actually improved the efficiency of the APP by reducing operating costs. Nonetheless, key informants reported that the APPEDS has saved the FGPD "*a lot time in terms of tracking and reviewing applications*."

Over the same period, the FGPD's salary costs increased. The main reason for the increase is that prior to 2008–09, the APP was not fully staffed. From 2007-08 to 2010-11, the number of FTEs gradually increased from 23 to 38, thereby increasing the salary costs of the FGPD.

Table 5: Administrative Expenditure for the APP and the PPP, 2006-07 to 2010-11 ($ millions)[8]

	2006–07	2007–08	2008–09	2009–10	2010–11
Internal					
Salaries	$1.45	$1.47	$1.34	$1.60	$1.63
NPO – professional and special services	$2.07	$0.58	$0.08	$0.19	$0.03
NPO – other	$0.34	$0.34	$0.52	$0.57	$0.25
Subtotal	*$3.86*	*$2.39*	*$1.94*	*$2.36*	*$1.91*
External					
Salaries – recoveries	-	-	-	$0.17	$0.17
Salaries – MISB	-	-	-	-	$0.04
Salaries – other	$0.10	$0.10	$0.06	-	$0.05
NPO – APPEDS system build	$1.80	$1.00	$0.97	$0.46	$0.51
NPO – recoveries	-	-	-	$0.02	$0.02
NPO – other	$0.02	-	$0.01	-	$0.11
Subtotal	*$1.92*	*$1.10*	*$1.04*	*$0.65*	*$0.90*
Total	**$5.78**	**$3.49**	**$2.98**	**$3.01**	**$2.81**
Source: The APP and the PPP Financial Summary					

Based on an assessment of the foregoing data, it is possible to conclude that the administrative costs for the APP have been decreasing over the past five years. The main factor contributing to these reduced costs are the declining costs related to the development and maintenance of the APPEDS.

3.3 Factors Affecting Administrative Efficiency

The APP's program costs are influenced by fluctuating interest rates and defaults that in turn affect AAFC's financial liability under the program.

8 Salary costs include 38 staff members, while 37 staff members work on the APP, 1 works for the PPP.

Based on evidence from the financial review, the APPEDS data review, and key informant interviews, the program costs of the APP are influenced by interest rates and defaults on AAFC guaranteed loans.

Interest costs

AAFC pays the interest on advances up to $100,000 per producer. Interest costs are a major component of APP costs, accounting for 39% to 81% (average of 55%) of program costs from 2006-07 to 2010-11. Between $1.6 billion and $2.7 billion was advanced to producers in the 2007 to 2009 production cycles. About 80% of the total advances issued were interest-free.

As shown in Table 6, over the past five years, interest costs have ranged from $11 million to $36 million per year. Some of the factors influencing interest costs are:

- The number of producers participating in the program and the amount of interest-free advances issued to producers.

  Beginning with the 2007 production year, the maximum amount of an interest-free advance per producer was increased from $50,000 to $100,000. This increased the amount of interest paid from $11 million in 2006-07 to $34 million in 2007-08.

  Higher interest costs in 2008–09 resulted from emergency advances that were issued to cattle and hog producers. In the 2008 production period, an additional 4,143 producers participated in the APP and an additional $2 million in interest payments were made on behalf of producers.

- The prime interest rate. The interest rate that AAFC pays on the interest-free portion of the advances is prime minus a quarter percent. Higher interest costs in 2007–08 reflected a higher interest rate; 6% compared to around 2% in 2009–10 and 2010–11.

  AAFC has directly benefited from low interest rates. Between 2007-08 and 2010-11, for every $77 advanced AAFC paid $1 in interest.[9]

Table 6: Interest costs, 2006–07 to 2010–11

	2006–07	2007–08	2008–09	2009–10	2010–11

[9] Based on the APPEDS data.

Interest paid on advances ($M)	$11.27	$33.96	$35.95	$14.40	$18.33
Percent of program costs	49%	65%	81%	39%	43%
Amount of interest-free advances ($B)	$0.30	$1.40	$2.03	$1.60	$1.27
Amount of advanced ($B)	$0.35	$1.58	$2.73	$2.01	$1.57
Number of producers	13,284	30,946	35,089	29,177	25,054
Average prime rate	5.95%	6.02%	4.14%	2.26%	2.77%
Source: APP Financial Summary and APPEDS					

Since AAFC interest costs are determined by producer participation and interest rates set by the Bank of Canada, AAFC cannot implement measures to reduce its interest costs. Nonetheless, it is important to recognize that within the current program structure and participation levels, AAFC's interest costs fluctuate. A key static element that influences program costs is the legislative provision that sets the maximum amount for interest free advances. A lower maximum amount could potentially reduce AAFC interest costs (depending upon the number of producers participating). Conversely, a high maximum amount could significantly increase AAFC's interest costs.

AAFC pays interest directly to lenders, based on Monthly Interest Claim reports submitted by administrators through the APPEDS. These reports must be submitted within 15 business days of the month's end. Key informants noted that some Western administrators are behind on submitting interest claims, which makes it difficult for AAFC to forecast anticipated financial liability. In the words of one key informant, "*there was a need for a much tougher attitude in terms of asking why they haven't got their interest claims in for the last five years."* To rectify this problem, the FGPD staff are holding biweekly meetings with Western administrators to identify all outstanding interest claims. The amount of interest claims outstanding is available from the APPEDS, but data is not reliable and cannot be validated.

Default Costs

While administrators have primary responsibility for collecting on defaulted advances, if once they have completed the collection process outlined in their Advance Guarantee Agreement (AGA) without success, they can request AAFC to honour the guarantee. Default-related costs associated with honouring guarantees primarily include principal payments, default-related interest costs, and legal fees. Between 2006–07 and 2010–11, AAFC's default-related costs ranged from about $5 million to almost $22 million. AAFC attempts to collect all debt owed after honouring their guarantees with financial institutions.

Although the average default rate from 2007-08 to 2010-11 is only about 1-2%, defaults can comprise a substantial portion of program costs. As shown in Table 7, default-related expenditures accounted for about 50% of program costs in 2009–10 and 2010–11. Based on the APPEDS, the average default was $40,407 based on 1,885 defaults, indicating that for every $86 AAFC advances, $1 is defaulted.

Table 7: Types of default-related expenditures, 2006–07 to 2010–11

Default payments for:	2006–07	2007–08	2008–09	2009–10	2010–11
Principal ($m)	$5.42	$14.20	$4.74	$8.96	$9.72
Interest ($m)	$0.44	$0.38	$0.45	$0.11	$0.07
Legal ($m)	$0.02	$0.08	$0.05	$0.03	$0.04
Emergency advances[1] ($m)	-	-	-	$10.24	$12.05
Other (e.g., collection costs) ($m)	-	-	-	-	$0.03
Total default-related expenditures	**$5.88**	**$14.65**	**$5.24**	**$19.35**	**$21.91**
Percent of program costs	*26%*	*28%*	*12%*	*53%*	*51%*
Cost per producer	$443	$473	$149	$663	$875
Cost per administrator	$245,034	$276,415	$95,273	$379,412	$421,346
Source: APP Financial Summary and APPEDS					

In conclusion, the APP's program costs are influenced by fluctuating interest rates and defaults that in turn affect AAFC's financial liability. In terms of program efficiency, AAFC has no control over interest rates and producer participation; however, the government does have control over the maximum value of the interest free loans that can be advanced as this amount is set out in section 9 of the *AMPA.*

3.4 Backlog of Defaults

AAFC has had challenges in honouring and recovering defaults which have increased program costs and impacted the program's efficiency.

Generally, producers are declared to be in default if they breach any of their obligations under their agreements with administrators and have not remedied the breach within the notice period given; their obligations have not been discharged at the end of the production period; or if the producer has not met all of their obligations when the producer files an assignment under the *Bankruptcy and Insolvency Act* or a when bankruptcy order is made against the producer. Administrators inform AAFC of defaults using the following reports:

- Monthly Default Report, which contains information on all defaults, regardless of the production year, for which AAFC has not yet honoured the guarantee. This report must be submitted within 15 business days of the month's end.
- End of Production Period Report, which contains information on outstanding advances at the end of the crop year. This report must be submitted within 45 days of the end of the crop year.

- Default During Production Period Report, which contains information on advances that went into defaults prior to the end of the production period.

From 2009–10 to 2010–11, the APP has been experiencing a backlog in defaults, which includes delays in receiving default reports from administrators as well as delays in honouring guarantees and transferring defaulted files to AAFC's Recoveries Branch. Due to the backlog in defaults, AAFC does not have a complete picture of the outstanding amounts or its financial liabilities.

Key informants indicate that the backlog resulted because:

- Prior to 2010-11, there was a lack of sufficient FGPD resources to validate default reports and process claims against the guarantees. As one key informant explained, "because of the workload, defaults were always put aside; sometimes for months and then for years."
- Some administrators, especially some of the large ones in the Western provinces, have delayed sending defaulted producer files to AAFC for recovery, which has reduced the potential for recovery and increased AAFC's financial liability. One risk facing the APP is that all of the administrators could ask for their guarantees to be honoured at the same time for files where their obligations to recover the amounts in defaults are completed, which would result in a large outflow of cash.
- In part, the design of the APPEDS may have contributed to these delays. As one key informant explained, "we need to wait for the End of Production Period Report or Default During Production Period reports to put a producer in default and the Monthly Default Report to record repayment." These difficulties are exacerbated when producers receive advances from multiple administrators. For example, "if one administrator is doing [its] End of Production Period Report and it puts a producer into default, then the other administrator is blocked from doing [its] End of Production Period Report because [it] cannot do a transaction on a producer that is in default." Due to these reporting challenges, some administrators may be reluctant to change a producer's status to default.
- AAFC has no control over when administrators submit claims against the guarantees and transfer defaulted files over for recovery. Administrators do not have to transfer files to AAFC until they become inactive (i.e., they have exhausted all means of negotiating a settlement agreement). It is up to the administrator to decide when a file becomes inactive; therefore, there is no set period within which administrators must send defaulted files to AAFC for recovery, which reflects a limitation of the *AMPA*. According to some key informants, the *AMPA* does not have the authority to call in defaults from

administrators. Some defaults date back to five to ten years, thereby making it more challenging to recover some of the money owed to AAFC.

- Approximately $454 million in emergency advances were issued in 2008; although the Minister issued a “stay of default” in 2009-10, in effect until 2012-13, to allow hog and cattle producers more time to repay their loans, some of these advances may go into default, potentially exposing AAFC to more risk. The evaluation data indicates that some files may already have gone into default due to non-program circumstances (e.g., farm bankruptcy).

To address the backlog in defaults, the FGPD established a Default Improvement Project (DIP) in January 2011. The main objectives of the DIP Project are to:

- Identify and resolve issues causing a backlog in defaults;
- Establish direction and guidance on default management matters with other units within AAFC, such as Recoveries; and
- Overcome constraints relating to default management, such as human and financial resources, levels of expertise, and systemic barriers.

Working closely with the Default Working Group, the default team includes a project manager, a default program manager, three default officers, and a clerical position.

Being relatively new, the DIP is still being established. The project is in the midst of developing Officer Procedures, which will standardize the handling of defaulted claims. Considerable time is also spent on local and remote training for the default team members—most of whom were hired within the last year.

The default team is responsible for recording which defaults have been paid out by the APP (at which point, the Crown takes over the loan) and sending those files to Recoveries—a separate branch within AAFC. Officers are responsible for processing claims, which involves verifying the accuracy of claim information, calculating the correct amount of principal interest, and retrieving missing information from administrators. Emergency claims are handled by a senior default officer in Ottawa, who is also responsible for processing default claims for the *Canadian Agricultural Loans Act (*CALA) program, which is another financial guarantee program offered within the FGPD.

The DIP may result in improved efficiencies through changes to default practices. For example, by processing default files promptly, AAFC can minimize the amount of interest it pays on defaults.

In conclusion, AAFC has had administrative challenges in honoring and recovering defaults which have increased program costs and impacted the program's efficiency.

Recommendation #1:

The FGPD should report on its progress on processing default files to senior management as it impacts program efficiency and AAFC's financial liability.

Management Response and Action Plan:

Agreed. The first quarterly Default Management progress report was prepared for senior management in October 2011. This update shows the progress during the quarter in terms of number and value of claims processed and new claims received. The report also tracks progress on improving the default management function overall: increasing APPEDS functionality & reporting, strengthening Administrators' responsibilities and establishing a streamlined default management process. These improvements will lead to greater accuracy in monitoring and reporting of outstanding loan balances. The FGPD will continue to report to senior management on a regular basis through the Horizontal Management Board.

(Target: October 2011; Responsibility: Director, FGPD)

3.5 Program Monitoring and Reporting: APPEDS

Some data contained in the APPEDS is not necessarily up-to-date or reliable, and could be contributing to a duplication of efforts in terms of program administration.

The document review and interview data indicate that the APPEDS has some limitations that are affecting program monitoring and reporting.

- The APPEDS is a complex system that was designed to replicate the former paper-based program administration process and does not adequately meet the needs of program managers and administrators. As discussed in Section 3.4, the design of the APPEDS makes the system difficult to use when producers receive advances from multiple administrators.

  Additionally, the APPEDS reports are based on aggregate administrator data rather than individual producer data. For example, interest paid is not tracked at the individual level, and therefore, AAFC is not aware of interest paid on individual advances.

Aggregate reporting also creates difficulties for administrators. As one key informant explained, AAFC officials "*ask administrators to report on all of the advances and defaults that they've had for the month and how much interest has accrued for producers as opposed to just having them report per producer. It creates* [challenges] *because when there is a particular problem with one of the producers, you end up submitting a report on all of them.*" Consequently, if administrators' aggregate data does not balance, perhaps due to a data entry error, they need to request special reports from the FGPD to reconcile their data. For these reasons, some administrators use their own accounting software or spreadsheets to track individual producer information.

- Some data have to be reconciled using other tracking systems. Consequently, the APP cannot generate accurate financial reports. As a result, the FGPD manually tracks financial information on defaults, recoveries, and outstanding loans outside of the APPEDS, implying that there may be some duplication of efforts.

- There is no data dictionary, with defined variables for the APPEDS and, as a result, it makes it challenging to find and use the APPEDS data for program and corporate management. Without a data dictionary, it is difficult to understand what variables are contained in the APPEDS and how they are defined.

  Given the complexity of the APPEDS, the FGPD has had to engage an external consultant to produce many of the APPEDS data reports. Analysis of the APPEDS data conducted for the evaluation required special programming and data extracts that had not been previously conducted. Analysis of this nature provides useful insight into the efficiency of the APP.

  Although some predefined reports have been created[10], they are designed to support administrative processes, and not efficiency monitoring. Examples of reports prepared using the APPEDS are a summary table of administrators' progress in submitting reports and summary financial tables (e.g., amount of advances issued and repaid).

- The reliability of data varies significantly by variable, administrator, and production period. A review of the APPEDS found missing data, which may be due to administrators not capturing accurate and/or appropriate data.

[10] Predefined reports include ReportNet.

Key informants reported that a review of the APPEDS is under way. Depending on the results of the review, the FGPD may opt to redesign APPEDS, which would increase operating costs in the short term.

As for the PPP, an Excel-based spreadsheet is used to track and review monthly sales reports from administrators. Key informants believe this process is working well and is efficient.

In conclusion, some data contained in the APPEDS is not necessarily up-to-date or reliable, and could be contributing to a duplication of efforts in terms of program administration.

Recommendation #2:

The FGPD, in association with the Information Systems Branch, should conduct a review of the APPEDS that would explore opportunities to improve the use of the APPEDS. As well, the FGPD should provide thorough training to program staff and administrators so that the APPEDS can be better utilized for program monitoring and performance analysis.

Management Response and Action Plan:

Agreed. As a follow-up to the AMPA program review underway, changes may be required to how we deliver the APP and thus subsequent changes will be required in APPEDS. As such, the FGPD proactively launched the APPEDS Renewal project in September 2011. The project will specifically examine the recommendations of the OAE as part of the Business Case – Phase 1 of the project that is due in February 2012.

(Target: March 2012; Responsibility: Director, FGPD and Director, ISB)

The APPEDS training material has been integrated with the new and improved APP Desktop Procedures that will now form the basis for an APP/APPEDS training module that is being developed and will be presented to staff by the end of this fiscal year. Once launched, this training will remain evergreen to keep pace with changes in APP delivery. Administrators receive on-going support and training through their Program Officers/Managers.

(Target: March 2012; Responsibility: Director, FGPD)

3.6 Program Monitoring and Reporting: Service Standards

While the FGPD is currently meeting its three service standards, opportunities exist to further strengthen program monitoring and reporting (potentially using the APPEDS).

As part of their performance management guidelines, the APP and the PPP program officials are responsible for implementing and tracking a number of program-specific service standards. These standards are assessed and reported on quarterly basis. The assessments take into account both the number of times a service standard was intended to be met and the number of times the standard was actually met during the period. The APP and the PPP service standards include:

- Responding to phone enquiries (via the APP's toll-free number) within two business days.
- Responding to email enquiries within two business days.
- Sending producer organizations (administrators) an Advance Guarantee Agreement/Price Guarantee Agreement for their review and signature within eight weeks (or 56 days) of receiving a fully documented application.
- As shown in Table 8, in 2010–2011, aside from three APP agreements and one PPP agreement, the programs have met these targets:

Table 8: Service Standards Reporting for 2010–11

	Q1			Q2			Q3			Q4		
	Req.	**Met**	**%**	**Req.**	**Met**	**%**	**Req.**	**Met**	**%**	**Req.**	**Met**	**%**
APP												
Phone/Email	-	-	-	12	12	100%	-	-	-	-	-	-
Agreements	41	39	95%	27	27	100%	4	4	100%	17	16	94%
PPP												
Phone/Email	-	-	-	-	-	-	-	-	-	-	-	-
Agreements	1	-	-	4	4	100%						
Source: FGPD Service Standards Spreadsheet for FY 2010–11												

Although the APPEDS can be used to track service standards, it is not currently being used for this purpose. According to the APPEDS analysis, the average number of days it took to process one administrator application from start to approval stage was 61 days in 2007, 82 days in 2008, and 62 days in 2009. Presumably, applications took longer to process in 2008 because it was the first time the "severe economic hardship" provision for emergency advances had been used.

While this analysis demonstrates that the APPEDS can be used to track service standards, key informants cautioned that the APPEDS does not accurately depict completion times. As mentioned above, according to

APPEDS it takes about 61 days to process an application whereas the service standard reports indicate that the vast majority of applications are processed within 56 days. Program officials explained that the completion times calculated using APPEDS may be inflated because they do not capture unavoidable delays in processing; for example, an application may be entered into the APPEDS as started, but if the administrator has not provided all of the information required in the application, processing cannot begin until this information is received.

The program could potentially improve its administrative efficiency by tracking the amount of staff time spent on various activities. For example, the program could track its performance with respect to time to process interest claims and defaults.

The APP and the PPP have not implemented any measures to assess the efficiency of individual program management activities. However, key informants reported that over the past year, the FGPD has initiated an internal review process and has taken several steps to improve APP operations. Specifically, the FGPD is:

- Implementing information tracking processes (e.g., number of claims processed per week, outstanding advances/defaults by region and commodity);
- Holding regional meetings with administrators to discuss program delivery processes;
- Working to improve its processes for managing and tracking defaults;
- Working with administrators to reduce the backlog in interest claims and default reporting; and
- Undertaking a review of the APPEDS.

In conclusion, while the FGPD is currently meeting its three service standards, opportunities exist to further strengthen program monitoring and reporting (potentially using the APPEDS).

Recommendation #3:

The FGPD should track and report the time required to process claims and defaults (potentially using the APPEDS) to assist in monitoring the efficiency of its processes.

Management Response and Action Plan:

Agreed. The default unit tracks all default claims from the time they are received to the time AAFC honours the guarantee to the lender. (Service standards will be set once all improvements to the default management function are in place). As mentioned, Default Management improvements and changes in APPEDS forms part of the APP Renewal project which will look at feasibility of tracking claims in APPEDS. The project will specifically examine the recommendation of the OAE as part of the Business Case – Phase 1 of the project that is due in February 2012.

(Target: February 2012; Responsibility: Director, FGPD and Director, ISB)

3.7 Comparison to Other Federal Programs

The APP's operating costs are comparable to, or less than those of other federal loans programs with similar delivery mechanisms and objectives.

The evaluation compared the APP's operating costs (salary and NPO) with those of other federal loan programs that have similar delivery mechanisms and objectives (principally to provide industry with guaranteed access to credit). Though no other federal loans program is directly comparable to the APP, the examination of similar programs, offers some insight into the efficiency of the APP. For the purposes of this analysis, the following programs were selected for comparison:

- Community Futures Program in Western Canada. This program promotes economic development by providing small and medium enterprises (SME) with business services and access to capital. It is similar to the APP in that it is delivered by a large number (90+) of third-party administrators. However, it differs from the APP because the program provides the delivery organizations with administrative funding. In the APP, third-party administrators recover their operating costs through producer application fees; the FGPD does not provide the administrators with delivery funding.
- Farm Credit Canada (FCC). FCC is similar to the APP in that it provides loan products to agricultural producers. However, the loan terms and conditions differ from the APP (e.g., they are not guaranteed and there is no interest-free provision). FCC differs from the APP in that it uses a financial institution-based delivery model.
- Canada Small Business Financing (CSBF) Program. The CSBF Program provides financing to establish, modernize, and improve small businesses. Businesses can access up to $500,000; however, unlike the APP, the loans do not have an interest-free portion. Additionally, unlike the APP, the loans are delivered through financial institutions.

Table 9 provides activity levels and efficiency ratios for the APP in comparison to other federal programs. Aside from FCC, the APP issues a higher amount of loans to a greater number of participants. Based on the efficiency ratios presented in the table, the APP appears to cost less to administer than other similar programs.

Table 9: Program Comparisons

Program	Activity level	Efficiency ratios
APP (2009-10)	• Amount of loans: $2 billion • Number of loans: 29,177 • Operating costs: $3.0 million	• Operating cost per $1 advanced: $0.001 • Operating cost per loan/producer: $103

Community Futures Program in Western Canada (2007–08)[11]	• Between 2002-03 and 2007–08 (over six years):
	  • Issued $328 million in loans (average $55million per year)
	  • Issued 8,500 loans (average 1,417 per year)
	  • Operating costs: approx. $63.8 million (average $10.8million per year)
		• Average operating cost per $1 loaned: $0.19
		• Average operating cost per loan issued: $7,500

Farm Credit Canada (2010–11)[12]	• Amount of loans: $6.2 billion • Number of loans: over 42,021 • Operating costs (core and project expenses): $270.8 million	• Operating cost per $1 loaned: $0.044 • Operating cost per loan issued: $6,444
Canada Small Business Financing Program (2008)[13]	• Amount of loans: $1 billion • Number of loans: 9,015 • Operating costs: $3.1 million	• Operating cost per $1 loaned: $0.003 • Operating cost per loan issued: $344

In conclusion, the APP's operating costs are comparable to, or less than those of other federal loan programs with similar delivery mechanisms and objectives.

3.8 Alternative Program Delivery

While alternative delivery models for the APP and the PPP exist, there are risks associated with these models that could offset any program efficiencies to be gained.

Although the APP's operating cost per advance and producer is low, other delivery models could potentially reduce administrative costs and increase efficiency. Other potential delivery models include:

- Delivery by provincial administrators
- Delivery by financial institutions (e.g., *Canadian Agricultural Loans Act* model)

[11] WED Canada Audit, Evaluation & Disclosure Branch. (2008). Evaluation of the Community Futures Program in Western Canada. Retrieved June 10, 2010, from http://www.wd.gc.ca/images/cont/11177-eng.pdf. Information is based on approximate of financial data and efficiency ratios that were available in the WED evaluation. Operating costs were $158.2million for program that includes other services than just loans.

[12] FCC Annual Report (2010-2011).

[13] Industry Canada (2009). Evaluation of the Canada Small Business Financing Program.

Delivery by provincial administrators, e.g. Agricultural Commodity Corporation (ACC) Farms Financial, could reduce the number of administrators from 52 to 10. This could increase consistency in program delivery and reporting practices, which may translate into reduced FGPD management costs.

Delivery by financial institutions could potentially reduce the number of administrators and increase participation by offering a combined AAFC loans with other financial products. This model is used by the CALA, which delivers guaranteed loans to new and existing farmers and agricultural co-operatives.

These alternate delivery models are not without risk or potential increases in costs.

- Implementation of a province-based delivery model may require the development of new provincial delivery organizations in some provinces if none exist, or if existing ones do not have sufficient capacity.
- A financial institution-based model may lead lenders to use the program as a risk management or marketing tool. They may modify their typical lending practices by including the APP as one component of a financing package (e.g. tied selling). While this may increase participation in the APP, it could increase producers' borrowing costs if lenders raise interest rates on other loan products to cover the costs of issuing APP advances. Further, as program participation increases, the APP will incur higher interest costs and possibly higher default-related expenses.

Stakeholder engagement meetings held by the FGPD in summer 2011 found little industry support for these alternate delivery models. Conversely, there was substantial support for retaining the current delivery model.

In conclusion, while alternative delivery models for the APP and the PPP exist, there are risks associated with these models that could offset any program efficiencies to be gained.

3.9 Current Program Delivery

Opportunities exist to improve the APP's efficiency by clarifying and adjusting the parameters for the number of third party administrators and the duration of Advance Guarantee Agreements.

The FGPD employs 37 staff to manage 52 third-party administrators to deliver the APP. Key informants noted that managing these administrators is one of the APP's largest "soft" costs. The activity-based costing (ABC) exercise concluded that FGPD staff members spend over half of their time processing defaults, processing interest claims, and interacting with administrators.

Table 10 provides the results of the ABC exercise, which involved asking all staff in the APP and the PPP to complete a questionnaire documenting the amount of time they spend on various program activities. Please refer to Appendix D for the methodology for the ABC exercise. Based on the figures provided, the FGPD staff members spend a total of 5,540 days on APP and PPP activities, which represents 94% of their total working days per year. Over half of their time is spent on core program delivery tasks including:

- Administrator applications and other interactions (14%), at a cost of $228,000;
- Interest claims (17%), at a cost of $277,000; and
- Defaults (21%), at a cost of $342,000.

Table 10: Percent of the FGPD Staff Time by Activity (2010-11)

Activity	APP time	Total time
Meetings	9%	10%
Policy and program design issues	10%	10%
Ministerial documents/ATIP requests	4%	4%
Performance and financial reporting	4%	4%
Administrator applications	6%	5%
Other interaction with administrators	9%	9%
Interest claims	19%	17%
Defaults	23%	21%
Recoveries	4%	4%
Recipient audits/compliance visits	3%	3%
Stay of advance/default	2%	2%
Awareness/promotional activities	2%	2%
Human resources	3%	3%
Other	2%	2%
Non-APP	n/a	6%
Total	100%	100%

One area where the program may be able to reduce costs is around processing administrator applications and preparing AGAs. Currently, administrators must apply to deliver the program each year and the FGPD must establish an AGA with accepted administrators annually. Key informants suggested that moving to a three-year or five-year AGA period may lower costs without increasing risks. They noted that many of the administrators have a long history of delivering the program (the APPEDS shows that, over the last three production periods, 60% of administrators participated in more than one production period) and noted that the one-year AGA could be retained for new administrators, as a way of managing risk.

Furthermore, the FGPD has not defined a maximum number of administrators to deliver the program. While the exact number varies from year-to-year, between 50 and 55 administrators typically deliver the program. In 2010-11 the number of administrators was at 52. Although, new administrators must demonstrate how they will improve producers' access to the program, increases in the number of administrators may raise the amount of staff resources required to manage administrators.

Finally, key informants reported that the large number of administrators creates potential for inconsistency in delivery. They noted that some of the inconsistencies can result from differences in the information that managers provide to administrators as well as administrator understanding of the program. To address this issue, key informants noted that the FGPD is tracking policy decisions and ensuring they are communicated to managers and administrators, holding regional face-to-face meetings with administrators, and updating the administrator guidelines. They also provide administrators with training on how to use the APPEDS. Additional efforts could be made to identify which administrators are not submitting reports on time and/or correctly and offer them additional training.

As for the PPP, it is a small program, involving about seven marketing co-operatives. Two part-time FGPD staff members prepare Price Guarantee Agreements (PGAs) and review monthly sales reports from administrators. In the past, regional managers were responsible for working with marketing agencies participating in the PPP. In 2010, the program assigned one manager responsibility for the PPP, which increased the consistency of program management practices and improved program efficiency. Key informants reported that the PPP uses streamlined processes and could not identify ways to improve it.

In conclusion, opportunities exist to improve program efficiency for APP by clarifying and adjusting the parameters for the number of third party administrators and the duration of Advance Guarantee Agreements.

Recommendation #4:

The FGPD should review the length of the Advance Guarantee Agreements that are set-up with administrators and should review the parameters for identifying the number of third party administrators required to deliver the program to ensure they support program efficiency.

Management Response and Action Plan:

Agreed. The length/timeframe of the Advance Guarantee Agreement (AGA) is prescribed by the AMPA. Similarly, any changes to the limit for the number of third party administrators required to deliver the APP would also require a legislative amendment. This issue is being evaluated under the AMPA program review activities. AAFC will consider the recommendation after the completion of the AMPA program review.

(Target: June 2012; Responsibility: Director, FGPD)

4.0 Conclusions and Recommendations

4.1 Conclusions

Over the past five years, administrative costs for the APP and the PPP declined from $5.8 million in 2006-07 to $2.8 million in 2010-11. The bulk of the decline in operating costs results from lower costs associated with the implementation of the Advance Payment Program Electronic Delivery System (APPEDS).

The APP's program costs are influenced by fluctuating interest rates and default related costs that in turn affect AAFC's financial liability under the program. AAFC's interest payments are influenced by the number of producers participating in the program, the amount of interest-free advances issued to producers, and the prime interest rate. AAFC has no control over interest rates and participation. However, the government does have control over the maximum amount for interest free loans that can be advanced to producers, as outlined in section 9 of the *AMPA*.

Over the past two years, default-related expenditures accounted for about 50% of program costs. The FGDP has been experiencing a backlog in defaults, which includes delays in receiving default reports from administrators as well as delays in honouring guarantees and transferring defaulted files to AAFC's Recoveries Branch. As a result of the backlog and delays, AAFC does not have a complete picture of the outstanding amounts or its financial liabilities.

The APPEDS has some limitations that are affecting the efficiency of program monitoring and reporting. For example, the APPEDS is based on aggregate administrator data rather than individual producer data. A data dictionary has not been developed for the APPEDS and the reliability of the data varies significantly by variable, which makes it difficult to use the data to analyze program efficiency. A review of the APPEDS is underway to determine whether the APPEDS should be updated and/or redesigned.

The APP is meeting its service standards in terms of timelines for preparing agreements and responding to phone calls and emails. However, the APP has not implemented any measures to assess the efficiency of individual program management activities, including the time to process claims and defaults.

An examination of similar federal programs found that the APP's operating costs are comparable to, or less than, other programs.

Although the APP's operating costs per advance and producer are low, other delivery models may further reduce administrative costs and increase efficiency. For example, delivery by provincial administrators or financial institutions could reduce the number of administrators and potentially increase consistency of program delivery, thereby improving program efficiency. However, these models are not without risk or potential increases in costs. Moreover, there is little industry support for changes to the delivery model.

Opportunities exist to improve the program efficiency of the current delivery model. For example, for the APP, moving from an annual administrator application cycle to a three- or five-year application cycle may lower costs without increasing risks. Additionally, as the large number of administrators creates potential for inconsistencies in program delivery, adjusting the parameters for the number of administrators may also improve program efficiency.

The PPP has implemented recent governance changes for the program, which have improved program efficiency. Costs for the PPP appear to be low based on Financial Guarantee Programs Division information. However, the Financial Guarantee Programs Division does not track the APP and the PPP operating costs given that these costs are very low (3% of Financial Guarantee Programs Divisions overall resources).

4.2 Recommendations

The evaluation recommends that:

1. The Financial Guarantee Programs Division should report on its progress on processing default files to senior management as it impacts program efficiency and AAFC’s financial liability under the program.
2. The Financial Guarantee Programs Division, in consultation with the Information Systems Branch, should conduct a review of the APPEDS that would identify opportunities to improve the use of the APPEDS. As well, the Financial Guarantee Program Division should provide thorough training to program staff and administrators so that the APPEDS can be better utilized for program monitoring and performance analysis.
3. The Financial Guarantee Programs Division should track and report the time required to process claims and defaults (potentially using the APPEDS) to assist in monitoring the efficiency of its processes.
4. The Financial Guarantee Programs Division should review the length of the Advance Guarantee Agreements that are set-up with administrators and should review the parameters for identifying the number of third party administrators to ensure they support program efficiency.

Appendix A: Recommendations and Management Response and Action Plan

RECOMMENDATIONS	MANAGEMENT RESPONSE AND ACTION PLAN (MRAP)
1. The Financial Guarantee Programs Division should report on its progress on processing default files to senior management as it impacts program efficiency and AAFC's financial liability under the program.	Agreed. The first quarterly Default Management progress report was prepared for senior management in October. This update shows the progress during the quarter in terms of number and value of claims processed and new claims received. The report also tracks progress on improving the default management function overall: increasing APPEDS functionality & reporting, strengthening Administrators' responsibilities and establishing a streamlined default management process. These improvements will lead to greater accuracy in monitoring and reporting of outstanding loan balances. FGPD will continue to report to senior management on a regular basis through the Horizontal Management Board. *(Target: October 2011; Responsibility: Director, FGPD)*
2. The Financial Guarantee Programs Division, in consultation with Information Systems Branch, should conduct a review of the APPEDS that would explore opportunities to improve the use of the APPEDS. As well, the Financial Guarantee Programs Division should provide thorough training to program staff and administrators so that the APPEDS can be better utilized for program monitoring and performance analysis.	Agreed. As a follow up to the AMPA program review underway, changes may be required to how we deliver the APP and thus subsequent changes will be required in APPEDS. As such, FGPD proactively launched the APPEDS Renewal project in September 2011. The project will specifically examine the recommendation of the OAE as part of the Business Case – Phase 1 of the project that is due in February 2012. *(Target: March 2012; Responsibility: Director, FGPD and Director, ISB)* Agreed. APPEDS training material has been integrated with the new and improved APP Desktop Procedures that will now form the basis for an APP/APPEDS training module that is being developed and will be presented to staff by the end of this fiscal year. Once launched, this training will remain evergreen to keep pace with changes in APP delivery. Administrators receive on-going support and training through their Program Officers/Managers. *(Target: March 2012; Responsibility: Director, FGPD)*

RECOMMENDATIONS	MANAGEMENT RESPONSE AND ACTION PLAN (MRAP)
3. The Financial Guarantee Programs Division should track and report the time required to process claims and defaults (potentially using the APPEDS) to assist in monitoring the efficiency of its processes.	Agreed. The default unit tracks all default claims from the time they are received to the time AAFC honours the guarantee to the lender. (Service standards will be set once all improvements to the default management function are in place). As mentioned, Default Management improvements and changes in APPEDS forms part of the APP Renewal project which will look at feasibility of tracking claims in APPEDS. The project will specifically examine the recommendation of the OAE as part of the Business Case – Phase 1 of the project that is due in February 2012. *(Target: February 2012; Responsibility: Director, FGPD and Director, ISB)*
4. The Financial Guarantee Programs Division should review the length of the Advance Guarantee Agreements that are set-up with administrators and should review the parameters for identifying the number of third party administrators to ensure they support program efficiency.	Agreed. The length/timeframe of the Advance Guarantee Agreement (AGA) is prescribed by the *Agricultural Marketing Programs Act*. Similarly, any changes to the limit for the number of third party administrators required to deliver the APP would also require a legislative amendment. This issue is being evaluated under the AMPA program review activities. AAFC will consider the recommendation after the completion of the AMPA program review. *(Target: June 2012; Responsibility: Director, FGPD)*

Appendix B: List of Documents Reviewed

1. The *Agricultural Marketing Programs Act*
2. The Agricultural Marketing Programs Regulations
3. The APP Advance Guarantee Agreement template
4. The APP and the PPP financial summary
5. The APP and the PPP service standards reports
6. The APP Guidelines for Administrators
7. The PPP Administrative Guidelines
8. Draft summary of stakeholder engagement sessions (conducted as part of FGPD’s program review)
9. Evaluation of the Canada Small Business Financing Program (2009)
10. Evaluation of the Community Futures Program in Western Canada (2008)
11. Farm Credit Canada Annual Report (2010-11)
12. FGPD Job Descriptions (various positions)
13. The Advance Payment Program Electronic Delivery Systems Training Manual
14. AAFC Compliance Audit of APP administered by ACC Farmers Financial

Appendix C: Interview Guides

Program Efficiency Evaluation: Advance Payments Program and Price Pooling Program
Advance Payments Program Representatives

Agriculture and Agri-Food Canada's (AAFC) Office of Audit and Evaluation (OAE) is evaluating the efficiency of the Advance Payments Program (APP) and the Price Pooling Program (PPP). The objective of this evaluation is to determine how efficiently the Financial Guarantee Programs Division (FGPD) is administering these programs. Independent of the OAE evaluation, FGPD is conducting an assessment of the performance of the APP and PPP.

- As one component of the review, PRA Inc. is conducting key informant interviews to obtain a range of perspectives from those who are or have been involved with the Program. The information collected will be summarized in aggregate form and, therefore, will not be attributed to individuals.
- The questions below will guide the interview process. We anticipate the interview will take about 30 minutes to complete. Your participation is voluntary and you may withdraw from the study at any time. We realize you may not be in a position to address some of the questions. If you cannot answer a question, please let us know and we will move on to the next one.

1. Please briefly describe your involvement with the APP. How long have you been involved with the program? What are your main responsibilities?
2. Please describe how FGPD manages:
   - Communications (internal and external)
   - Administrators (including applications, agreements, reporting, and recoveries)
   - Communications and relationships with other AAFC divisions (Corporate Management Branch, Market and Industry Services Branch)
   - APPEDS
   - Financial and performance reporting and monitoring
3. What are the strengths and weaknesses of FGPD's approach to managing the APP?
4. What are the major factors, both internal (e.g., internal management, resources) and external (e.g., administrator understanding of the program, state of the industry), affecting the efficiency of FGPD's management of the APP? What affect have these factors had on the program and how can they be overcome?
5. How does FGPD assess and monitor the efficiency of the APP?
   a. What routine reports on efficiency are produced?
   b. To what extent is APPEDS used to monitor the efficiency of the APP?
   c. What changes could be made to APPEDS to increase its capacity to measure and monitor the efficiency of the APP?
6. To what extent is financial information and performance data used to inform decision-making processes?
7. How do administrative costs of the APP compare to other federal agricultural programs that are delivered by third parties?
8. What changes could reduce the administrative and/or delivery costs associated with the APP? What impact would these changes have on program effectiveness?
9. Do you have any additional comments not covered in previous questions?

Thank you for your participation.

Program Efficiency Evaluation: Advance Payments Program and Price Pooling Program
Price Pooling Program Representatives

Agriculture and Agri-Food Canada's (AAFC) Office of Audit and Evaluation (OAE) is evaluating the efficiency of the Advance Payments Program (APP) and the Price Pooling Program (PPP). The objective of this evaluation is to determine how efficiently the Financial Guarantee Programs Division (FGPD) is administering these programs. Independent of the OAE's evaluation, FGPD is conducting an assessment of the performance of the APP and PPP.

- As one component of the review, PRA Inc. is conducting key informant interviews to obtain a range of perspectives from those who are or have been involved with the Program. The information collected will be summarized in aggregate form and, therefore, will not be attributed to individuals.
- The questions below will guide the interview process. We anticipate the interview will take about 45 minutes to complete. Your participation is voluntary and you may withdraw from the study at any time. We realize you may not be in a position to address some of the questions. If you cannot answer a question, please let us know and we will move on to the next one.

1. Please briefly describe your involvement with the PPP. How long have you been involved with the program? What are your main responsibilities?
2. Please describe how FGPD manages:
   - Communications (internal and external)
   - Marketing agencies (including applications, agreements, reporting, and claims)
   - Communications and relationships with other AAFC divisions
   - Databases/management systems
   - Financial and performance reporting and monitoring
3. What are the strengths and weaknesses of FGPD's approach to managing the PPP?
4. What are the major factors, both internal (e.g., internal management, resources) and external (e.g., marketing agency understanding of the program, state of the industry), affecting the efficiency of FGPD's management of the PPP? What affect have these factors had on the program and how can they be overcome?
5. How does FGPD assess and monitor the efficiency of the PPP?
   a. What routine reports on efficiency are produced?
   b. To what extent are databases/management systems used to monitor the efficiency of the PPP?
   c. What changes could be made to these systems to increase its capacity to measure and monitor the efficiency of the PPP?
6. To what extent is financial information and performance data used to inform decision-making processes?
7. How do the administrative costs of the PPP compare to other similar federal agricultural programs?
8. What changes could reduce the administrative and/or delivery costs associated with the PPP? What impact would these changes have on program effectiveness?
9. Do you have any additional comments not covered in previous questions?

Thank you for your participation.

Program Efficiency Evaluation: Advance Payments Program and Price Pooling Program Representatives of Other AAFC Divisions

Agriculture and Agri-Food Canada's (AAFC) Office of Audit and Evaluation (OAE) is evaluating the efficiency of the Advance Payments Program (APP) and the Price Pooling Program (PPP). The objective of this evaluation is to determine how efficiently the Financial Guarantee Programs Division (FGPD) is administering these programs. Independent of the OAE evaluation, FGPD is conducting an assessment of the performance of the APP and PPP.

- As one component of the review, PRA Inc. is conducting key informant interviews to obtain a range of perspectives from those who are or have been involved with the Program. The information collected will be summarized in aggregate form and, therefore, will not be attributed to individuals.
- The questions below will guide the interview process. We anticipate the interview will take about 30 minutes to complete. Your participation is voluntary and you may withdraw from the study at any time. We realize you may not be in a position to address some of the questions. If you cannot answer a question, please let us know and we will move on to the next one.

1. Please briefly describe your relationship with the APP/PPP. How long have you been involved with the program? How many staff in your Division work on APP/PPP -related activities?

2. What information and/or services does your Division provide to the APP/PPP? How much time do you think your Division spends on APP/PPP -related activities?

3. How effective are the communications processes between the APP/PPP and your Division? Are requests for information and/or services clear? Are you able to meet the timelines required for providing the requested information and/or services?

4. What are the strengths and weaknesses of the FGPD processes used to obtain information/services from other AAFC Divisions?

5. What are the major factors, both internal (e.g., internal management, resources) and external (e.g., administrator understanding of the program, state of the industry), affecting the efficiency of your involvement in the APP/PPP? What affect have these factors had on the program and how can they be overcome?

6. Based on your involvement in the APP/PPP, what changes could reduce the administrative and/or delivery costs associated with the APP/PPP? What impact would these changes have on program effectiveness?

7. Do you have any additional comments not covered in previous questions?

Thank you for your participation.

Appendix D: Activity-Based Costing – Preliminary Interview Guide and Questionnaire

Program Efficiency Evaluation: Advance Payments Program (APP) and Price Pooling Program (PPP)
Preliminary Interview with APP Representatives

Agriculture and Agri-Food Canada's (AAFC) Office of Audit and Evaluation (OAE) is evaluating the efficiency of the APP and PPP. The objective of this evaluation is to determine how efficiently the Financial Guarantee Programs Division (FGPD) is administering these programs. Independent of the OAE's evaluation, FGPD is conducting an assessment of the performance of the APP and PPP.

- The purpose of this preliminary interview is to gain a better understanding of the activities FGPD undertakes to administer the APP. The information gathered through this interview will be used to develop a questionnaire to collect data on the use of FGPD staff resources. The questions below will guide the interview process.
- We anticipate the interview will take about 45 minutes to complete. Your participation is voluntary and you may withdraw from the study at any time. We realize you may not be in a position to address some of the questions. If you cannot answer a question, please let us know and we will move on to the next one.

1. How long have you been involved with the APP?

2. Please describe your involvement in the following activities. In a typical week, what percentage of your time is spent on each activity? Are these activities done every week, occasionally over one month, almost never, or never? How does your involvement in these activities vary throughout the year?
   - Program design (e.g., guidelines, application forms, administrative improvements)
   - Providing updates on program progress (financial and/or performance reporting)
   - Preparing Ministerial documents
   - Working with Administrators
     - Helping Administrators complete applications
     - Assessing and approving applications
     - Determining advance rates
     - Preparing Administrator Guarantee Agreements
     - Preparing APPEDS reports for Administrators
     - Responding to questions/requesting information from Administrators
   - Conducting compliance visits
   - Processing interest claims
   - Managing defaults and recoveries
     - Recording defaults
     - Preparing repayment of expenditure reports
   - Coordinating and following-up on recipient audits
   - Preparing for/attending trade shows
   - Requesting/managing stays of advances

3. What other activities related to the APP do you participate in?

4. What other major non-APP activities have you engaged in over the last three months?

5. How many other staff are in the same position as you? To what extent do you think they participate in the same activities as you? What other activities might they be involved in?

6. Do you have any additional comments not covered in previous questions?

Thank you for your participation.

ADVANCE PAYMENTS PROGRAM (APP)
ACTIVITY-BASED COSTING QUESTIONNAIRE

This survey is being conducted as part of a program efficiency evaluation of the Advance Payments Program (APP). The purpose of the survey is to assist Agriculture and Agri-Food Canada in determining how staff resources are being used to administer the APP. This is *not* an exercise for analyzing the efficiency or productivity of individuals, and your identity will not be associated with your response.

The survey includes two sections: the first asks for basic information about your role in the APP and the second asks what percentage of your working time is spent on 13 different activities. All information you provide will be strictly confidential between you and PRA.

You may complete the form electronically (click or type the appropriate response) or you may print it out and fill it in using pencil. Please email your completed form to bibik@pra.ca or fax it to 1-800-717-5456.

SECTION 1: RESPONDENT INFORMATION

1. What is your current role in the APP? *(please check one only)*
   ☐01 Director ☐02 Assistant director ☐03 Program manager
   ☐04 Program officer ☐05 Administrative/clerical
   ☐66 Other (*please specify*)_____

2. When did you first start working in this position? _____month _____year

3. In your current position, how many hours per week do you typically spend working on the APP? _____

4. Thinking of the past 12 months, has your role in the APP changed? ☐1 Yes ☐0 No

SECTION 2: ACTIVITY TIME TRACKING

1. This section asks you to record what percentage of working time you spent on 13 APP activities over the past week and over the last 12 months. Please **read the entire set of activities listed** and think about whether your responsibilities fall within them. Then, **for each activity**, please answer the following questions:
2. First, thinking of your **current** position:
   a) During your **last full week** at work, what percentage of the week did you spend on each activity?
   b) During the **past 12 months**, what percentage of your time did you spend on each activity?
3. Next, thinking of your **previous** position (if applicable):
   a) During your **last full week** at work, what percentage of the week did you spend on each activity?
   b) During the **past 12 months**, what percentage of your time did you spend on each activity?

Please note that **<u>100%</u>** of your time should be allocated to the activities listed. If you did not participate in the activity listed, please enter 0%.

Activity	Time spent per activity in CURRENT position		Time spent per activity in PREVIOUS position	
	% of previous week	% of past 12 months	% of previous week	% of past 12 months
a. **Meetings** *(management meetings, meetings with other divisions/departments)*	_____	_____	_____	_____
b. **Policy and program design issues** (*background research, ad hoc working groups, working papers*)	_____	_____	_____	_____
c. **Ministerial documents/ATIP requests** (*briefing notes, letters from the Minister, "green" dockets*)	_____	_____	_____	_____
d. **Performance and financial reporting** (*weekly status reports, RPP/DPR, service standards, progress reports, APPEDS*)	_____	_____	_____	_____
e. **Administrator applications** (*ensuring applications are complete, setting up administrator IDs in APPEDS, reviewing committee activities, obtaining advance rates, preparing AGAs*)	_____	_____	_____	_____

f. **Other interaction with administrators** (*responding to questions about program guidelines, resolving APPEDS issues)*	____	____	____	____
g. **Interest claims** (*requesting/reviewing Monthly Interest Claim Summaries, reconciling reports, calculating interest payments, authorizing payments*)	____	____	____	____
h. **Defaults** *(requesting/reviewing Monthly Default Reports/Default During Production Period Reports, Default Working Group, Default Improvement Project, processing claims*)	____	____	____	____
i. **Recoveries** *(sending files to recoveries, liaising with recoveries personnel and administrators*)	____	____	____	____
j. **Recipient audits/compliance visits** (*audit plans, administrator risk ratings, arranging third-party audits, reviewing results*, *preparing for/conducting compliance visits, follow-up*)	____	____	____	____
k. **Stay of advance/default** *(forwarding requests to the Minister, monitoring industry conditions*)	____	____	____	____
l. **Awareness/promotional activities** (*trade shows, presentations*)	____	____	____	____
m. **Human resources** (*human resource planning, learning plans*)	____	____	____	____
Please specify any other APP activities you perform that are not already covered in the above categories.	____	____	____	____
n. _____	____	____	____	____
o. _____	____	____	____	____
NON-APP ACTIVITIES				
p. **What percentage of time did you spend on non-APP activities?** *(other programs, special projects)*	____	____	____	____
TOTAL AMOUNT OF TIME: *Each column should total 100%.	**100%**	**100%**	**100%**	**100%**

Calculations for ABC: The calculations in the table assume there are 229 working days in a year (subtracting for weekends, statutory holidays, 20 vacation days, and three sick days).

Appendix E: Program Profile

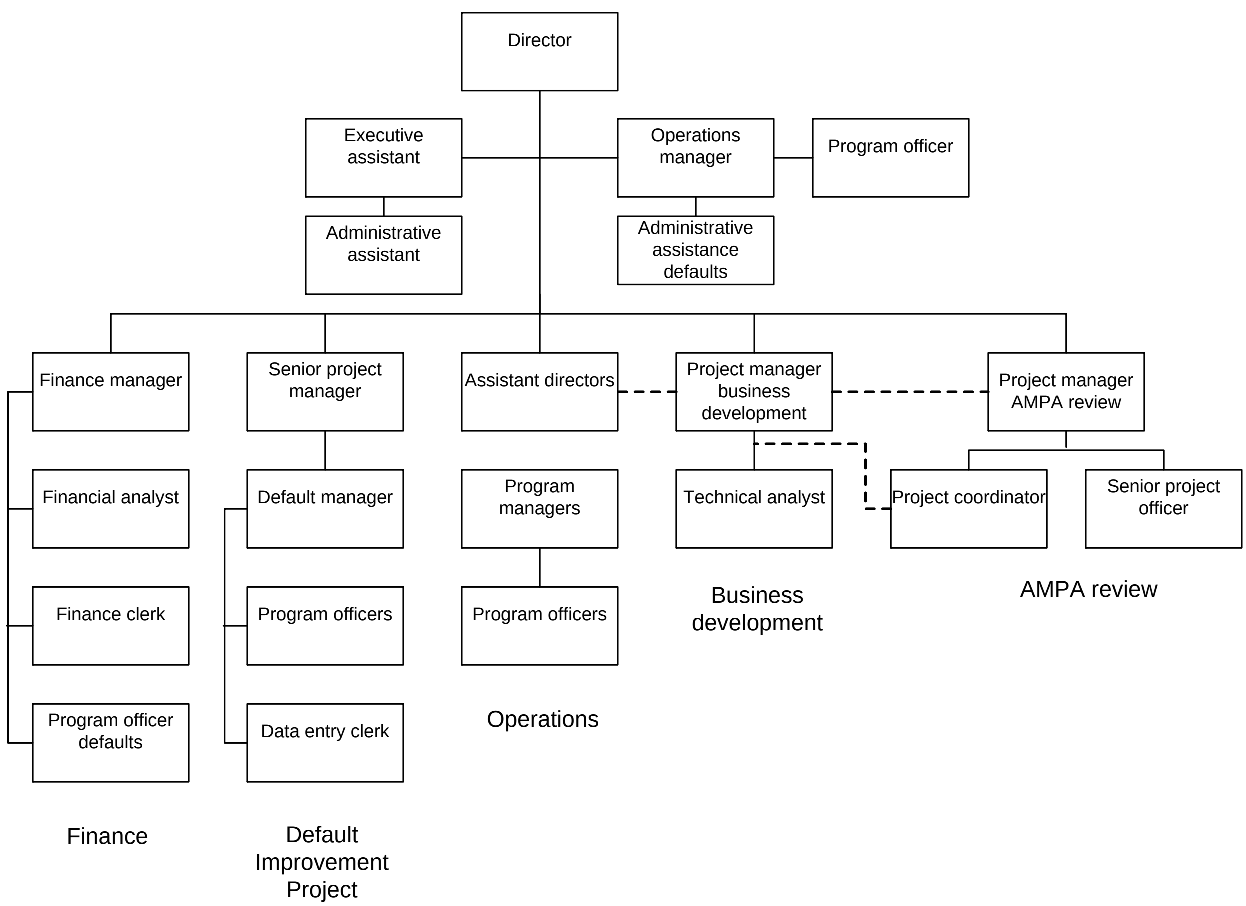
Advance Payment Program

1.1 Governance

The APP cash advances are intended to provide producers with a flow of cash prior to bringing their commodities to market, which gives them the flexibility to sell their agricultural products when market conditions are more favourable. These cash advances are not made by APP staff, but are instead managed and paid out by third-party administrators, who are responsible for day-to-day interactions with producers.

The 37 FGPD staff members involved in the APP fill a variety of roles including program executive, business development, finance, operations, management of administrators, and default management. Additionally, three staff members are assigned to the *AMPA* review. Figure 1 illustrates the APP's organizational structure.

Figure 1. APP organizational chart



1.2 Producer Eligibility

Producers apply to the producer organizations for cash advances. An eligible producer is defined under the *AMPA* as an individual, corporation, co-operative, or partnership or association of persons responsible for producing an agricultural product and controlled mostly by, or consisting mostly of, Canadian citizens or permanent residents. It also includes anyone entitled to the agricultural product or a share in it. A range of other specific eligibility requirements also applies to the producer, depending on whether it is an individual or group (i.e., a partnership, corporation, co-operative, or association of persons).

1.3 Program Activities and Outcomes

Program design and management

Staff members involved in program design and management participate in management meetings, policy discussions, and ad hoc working groups.

Management meetings and policy discussion

The FGPD director, assistant directors, program managers, and the finance manager participate in regular management meetings. Senior management meetings are held weekly to discuss policy issues and ensure that the *AMPA* is consistently interpreted and applied. Many of the discussions at weekly management meetings arise from questions posed by the third-party administrators.

Management meetings may identify the need to develop new policies. When this occurs, a program manager will be tasked with conducting background research for the new policy, drafting a policy paper, and presenting the results to the management committee.

Senior management also participates in meetings with other branches within AAFC. For example, APP senior management will meet with disaster recovery program staff to better understand the regional effects of disasters on producers.

Ad hoc working groups

Specialized working groups are formed to discuss specific procedural issues. For example, the Default Working Group is tasked with trying to improve the process for APP defaults (see below). The Default Improvement Project Manager serves as the Chair and selected program managers are participants. The program managers bring a local perspective to the working group and provide insight into regional and/or administrator-specific issues.

Updating administrator guidelines

Prior to the start of a new production period, the APP Operations Manager reviews the administrator guidelines and forms. As needed, the Operations Manager updates the program's guidelines and forms with any clarifications and additional examples needed to help ensure consistency in delivery and reporting. This is a relatively new position, which started in January 2011. Previously, this role was assigned to program officers on a rotating basis.

Preparing ministerial documents

Ministerial briefs and correspondences are a large part of assistant directors' responsibilities. Assistant directors tend to handle higher-profile correspondences—such as answering questions from the Minister or from Question Period and dealing with issues in the media. Program managers or officers may be asked to respond to lower-profile items such as "green dockets" (composing a letter for the Minister) and/or ministerial briefing sheets.

Working with administrators

Many FGPD staff members work on administrator-related tasks. This may involve participating in the application review process, preparing AGAs, and/or responding to questions from administrators.

Submitting and assessing applications

Producer organizations interested in administering advance payments to their producers submit a request to the APP. Upon receiving a request from a potential administrator, a program officer will search APPEDS to see whether the organization has already been entered into the system. If the producer organization does not appear in the system, the program officer creates an ID number for the organization and asks it to submit an application through APPEDS. Officers are responsible for acknowledging receipt of the application and for checking the status of applications.

Although potential administrators are primarily responsible for filling out their APPEDS application, program officers are required to assist with any questions the organizations may have during the application process. Program officers are also responsible for evaluating the completeness of administrators' applications. If information is missing, the officer must request this information from the administrator. If administrators have previously applied to the APP, then the officers must note any changes in administrator information between production periods.

Review Committee Summaries

After ensuring administrator applications are complete, program officers use APPEDS to create Review Committee Summaries (RCSs), which are risk assessments of administrators used to establish AGAs (discussed further below).

The RCS pulls together and analyzes the administrator's financial statements, data on previous production periods and APP loan amounts, and the results of previous compliance visits and recipient audits. If the administrator has previous experience with the APP, the officer also includes comments on the administrator's consistency in reporting to and communicating with APP staff.

An essential part of the RCS process is determining the administrator's advance rates, which is based on 50% of the average market price that will be payable to producers of a specific agricultural commodity during the production period. Program officers are responsible for sending requests for advance rates to AAFC's Market and Industry Services Branch (MISB). These requests include details on the commodities handled by the administrator as well as the administrator's requested advance rate. Commodity officers at MISB use Statistics Canada data to determine the administrator's advance rates, which will be the lower of the requested or MISB-approved rate. For this reason, two administrators dealing with the same commodity, but who have different requested rates, can potentially receive different advance rates (e.g., Administrator A requests $6 per bushel and Administrator B requests $4 per bushel, while MISB approves $5 per bushel; Administrator A would receive the approved rate [$5] and Administrator B would receive the requested rate [$4]).

Once MISB determines the advance rate, program officers are responsible for reviewing MISB's report to ensure the information and calculations are correct, and summarizing relevant comments from commodity officers. Program officers must also consult with the program manager to establish when the next compliance visits and audits will occur.

After the analysis is complete, administrators are given a rating on the APP's Risk Rating Scale, which ranges from green (no risk/concerns), to yellow (limited risk/concerns), to red (significant risk/concerns). Red-level risk assessments require the officer to arrange a meeting with the Review Committee, which includes the program manager, assistant director, and FGPD director. The outcomes of the meeting are integrated into the RCS and circulated for the Review Committee's approval.

If approved, red-level risk assessments follow the process of yellow- and green-level assessments, which are printed in ReportNet—software that contains predefined reports that can be filled with data exported from APPEDS—and distributed for signatures from the MISB commodity officer and regional MISB manager (if these were not already obtained). The RCS is then given final approval by the program manager, financing manager, assistant director, and the

FGPD director, who returns the file to the program officer so they can begin preparing the AGA.

Preparing Advance Guarantee Agreements

The AGA is a legal document between AAFC, an administrator, and a lender. The agreement—which outlines the obligations of the third-party administrator to AAFC and the lender—acts as a loan guarantee on behalf of AAFC, allowing the administrator to negotiate preferential rates on cash advances to its producers.

Program officers are responsible for creating and completing AGAs through APPEDS. This cannot be done until the RCS has been approved by the FGPD director. Similar to the RCS process, once the officer completes the draft AGA, the agreement and associated documents go to the program manager for review, who will then refer it to the assistant director for review and approval in APPEDS. The agreement also requires the approval and signature of the FGPD director.

The AGA—along with the terms and advance rate established in the RCS—then goes to the administrator and the administrator's financial institution, and the latter submits a banking information letter to the APP. Finally, a copy of the AGA goes to the finance manager and the administrator's cash advances become available through APPEDS.

Responding to questions/requesting information from administrators

FGPD staff is responsible for helping administrators resolve any program delivery issues. Day-to-day interactions with administrators are handled by program officers and regional program managers. For example, program officers help administrators resolve "data match" issues, which can occur when an administrator enters information on a producer applicant into APPEDS that is similar to another producer already in the system. The officer is responsible for verifying whether these producers are the same individual and any necessary corrections are made. Additionally, officers may respond to questions on interest claims (see below) and defaults (see below). Program managers may become more involved in day-to-day interactions for large-scale administrators. Assistant directors are generally involved in discussions about major policy issues.

Processing interest claims

As per APP policy, AAFC pays the interest on advances up to $100,000. Program officers are responsible for processing administrators' interest claims.

Administrators submit Monthly Interest Claim Summaries to the FGPD through APPEDS. They must also submit relevant bank statements to verify their interest claims. Officers reconcile these reports and recalculate the interest to ensure the APP was charged the correct amount.

Program managers have signing authority to make the interest payments. Assistant directors will also assist with this role if program managers are still in the midst of receiving financial administration training, which is needed to gain signing authority. Any interest payments over $50,000 must be sent to AAFC Corporate Finance for review and release of payments.

Managing defaults and recoveries

Administrators are required to provide the FGPD with Monthly Default Reports, Default During Production Period Reports, and End of Production Period Reports. However, several administrators have not been submitting these reports on time. Consequently, the APP is in the process of making changes to the way it manages defaults.

Coordinating and following up on recipient audits

The FGPD engages third parties to conduct recipient audits of administrators. The audits are conducted to ensure administrators are performing the obligations set out in the AGA and are maintaining proper controls, procedures, and record keeping in relation to the advances made to producers under the APP. The recipient audits may also examine whether an administrator has adhered to privacy legislation and conflict of interest principles.

Prior to an audit being conducted, APP program officers, managers, and assistant directors develop an audit plan. Program officers are responsible for determining administrators' risk rating. This is done using an audit grid provided by the Centre of Program Excellence (COPE), another unit within AAFC. Program managers use the risk rating to select the administrators that will be audited and then notify these organizations of the impending audit.

Once the audit plan is developed, the APP operations manager is responsible for coordinating the audits with COPE. COPE handles the contracting of third-party auditors to conduct the recipient audits. Once the auditor completes their audit, program managers are responsible for reviewing the auditor's statement of work and audit report. Approximately five recipient audits are completed every year.

After the audit report has been finalized, the program officer and manager work with the administrator to develop an action plan to resolve the issues addressed in the report. Officers are responsible for ensuring these actions, along with deadlines and resolutions, are carried over in the administrator's subsequent RCS.

Conducting compliance visits

Program managers and officers conduct and report on compliance visits to the third-party administrators. Officers are responsible for preparing materials beforehand—this includes reviewing any outstanding issues from the RCS, developing a visit agenda, and gathering copies of the AGA.

During the visit, program managers and officers meet with the administrator to discuss any relevant compliance issues. Officers work with the administrator's staff to locate files and review a cross-section of them. When choosing which files to review, officers must follow guidelines that specify how many files should be chosen according to the size of an administrator (e.g., an administrator with less than 500 producers would involve a sample of 20 producer files, whereas an administrator of 500–2,000 producers would require a sample of 30 files).

Once the visit is complete, the program manager and officer debrief the administrator on their findings. The officer is responsible for drafting a report of the findings, which then goes to the program manager for additional input. The officer then drafts a letter that outlines the visit findings, corrective actions to be taken, and an action plan. The letter is given to the program manager for approval. Managers and officers are responsible for implementing the action plan, while the assistant director is responsible for ensuring the action plan has been implemented.

Requesting/managing stays of advances (stays of default)

A stay of default involves amending the administrator's terms and conditions and extending the loan repayment period. This happens when an administrator's producers are unable to meet their terms of repayment because there were no market opportunities for the producers to sell their commodities, or producers faced extremely difficult financial situations. Stays will not be allowed if the administrator's producers were already in default of their loans. Administrators may request a stay on behalf of their producers. Only the Minister of Agriculture can grant a stay.

Managers or officers are tasked with handling stays from small organizations that have a relatively small number of producers in default of their loans. Assistant directors may become involved in larger or national-scale stays—such as the 2008 livestock stay—by providing memos and briefs to the Minister.

Performance and financial reporting

APP program officers are responsible for ensuring administrators' reports are sent to the APP on time. Program officers are also responsible for putting together weekly status reports on administrators. These reports show the status of the administrator's agreements, advances made, repayments, and emergency advances.

Program managers ensure the officers' status reports are up-to-date and channel this information—along with their own reports on program issues and mitigation strategies—to the assistant director, who subsequently reports to the director.

Financial reporting is handled by the FGPD's financial manager. The financial manager verifies numbers for the assistant directors, and prepares information for inclusion in the Departmental Performance Reports and Reports on Plans and Priorities.

Service standards

As part of their performance management guidelines, APP management is responsible for implementing and tracking a number of program-specific service standards. These standards are assessed and reported on quarterly. The assessments take into account both the number of times a service standard was intended to be met and the number of times the standard was actually met during the period. APP service standards include:

- Responding to initial enquiries (via the APP's toll-free number or email address) within two business days
- Sending producer organizations (administrators) an AGA for their review and signature within eight weeks of receiving a fully documented application

Other activities related to the APP

FGPD staff periodically participates in other activities related to the APP, such as awareness-building, special projects, and human resources.

Awareness-building

Almost all the FGPD staff participates in promoting the APP at trade shows. Typically, regional staff members who are in the area of the trade show are responsible for attending. However, as there are more trade shows in Western Canada, and regional staff are sometimes unable to attend, staff from other regions, who have not attended as many shows, will be invited to attend. APP delegates are typically joined by other FGPD staff, such as staff from the *CALA* program.

Trade shows are organized by the APP operations manager, who books booths for the regional APP representatives. Materials for the trade show are prepared by an external agency and sent to regional APP staff members, who then bring the materials to the show.

Special projects

From time to time, program managers are assigned special projects. Some of these projects deal directly with APP procedures and operations, such as participating in a working group or handling ATIP requests.

Other special projects are less procedural or operationally oriented. For example, managers may be tasked with making presentations to outside agricultural agencies who are interested in how the APP might benefit their producers. Outreach and educational activities are also conducted by the manager of the Default Improvement Project, who provides expert guidance to external stakeholders about defaults and their relationship to the legislation.

Performance Review

Biweekly meetings are held by APP assistant directors, the finance manager, and the operations manager to discuss progress on annual performance agreements and review concurrent human resources issues. Common topics discussed at the biweekly meetings include new personnel, personnel who are leaving, backfilling vacated positions, hiring students, and coordinating areas that need temporary assistance.

Performance agreements involve developing a work plan, which in turn involves creation of a learning plan. Learning plans include introductory training for agriculture and the APP, as well as training on values and ethics in the public service, ATIP issues, maintenance of a respectful workplace, managing in the public service (for managers), and Grants and Contributions training. Work plans are coordinated and monitored by the assistant directors and co-managed with program managers. The FGPD director ensures these plans are consistent with the mandate of the APP.

Appendix F: PPP Marketing Agencies, 2006-2010

Table 11: PPP Marketing Agencies, 2006 - 2010

Year	Marketing Agencies	Amount Guaranteed
2006	1-Agricore United – Alberta Bean Division (previously Agricore – Bean Business Unit) 2-Ontario Bean Producers Marketing Board 3-Ontario Flue-Cured Tobacco Growers' Marketing Board 4-Ontario Wheat Producers' Marketing Board 5-Abbotsford Growers Cooperative 6-Fédération des producteurs de cultures commerciales du Québec	1) $18.33 million 2) $2.1 million 3) $6.68 million 4) $25.6 million 5) $6.97 million 6) $7.99 million
2007	1-Agricore United – Alberta Bean Division (previously Agricore – Bean Business Unit) 2-Ontario Bean Producers Marketing Board 3-Ontario Flue-Cured Tobacco Growers' Marketing Board 4-Ontario Wheat Producers' Marketing Board 5-Abbotsford Growers Cooperative 6-Fédération des producteurs de cultures commerciales du Québec 7-PEI Grain Elevators Corporation	1) $22.99 million 2) $1.3 million 3) $1.33 million 4) $1.1 million 5) $7.1 million 6) $9.5 million 7) $4 million
2008	1-Viterra Inc – Alberta Bean Division (previously Agricore – Bean Business Unit/ Agricore United – Alberta Bean Division) 2-Ontario Bean Producers Marketing Board 3-Ontario Wheat Producers' Marketing Board 4-Abbotsford Growers Cooperative 5-Fédération des producteurs de cultures commerciales du Québec 6-PEI Grain Elevators Corporation	1) $19.3 million 2) $1.8 million 3) $15.1 million 4) $6 million 5) $8.2 million 6) $8.6 million

2009	1-Viterra Inc – Alberta Bean Division (previously Agricore – Bean Business Unit/ Agricore United – Alberta Bean Division) 2-Ontario Bean Producers Marketing Board 3-Grain Farmers of Ontario (previously Ontario Wheat Producers' Marketing Board) 4-Abbotsford Growers Cooperative 5-Fédération des producteurs de cultures commerciales du Québec 6-PEI Grain Elevators Corporation	1) $14.7 million 2) $1.3 million 3) $18.38 million 4) $6.48 million 5) $7.98 million 6) 4.3 million
2010	1-Viterra Inc – Alberta Bean Division (previously Agricore – Bean Business Unit/ Agricore United – Alberta Bean Division) 2-Ontario Bean Producers Marketing Board 3-Grain Farmers of Ontario (previously Ontario Wheat Producers' Marketing Board) 4-Abbotsford Growers Cooperative 5-Fédération des producteurs de cultures commerciales du Québec	1) $13.99 million 2) $1 million 3) $18 million 4) $7.4 million 5) $7.6 million