

Report to Parliament

On

The Farm Debt Mediation Act,

Farm Debt Mediation Service and

Farm Consultation Service

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**REPORT TO PARLIAMENT
ON
THE FARM DEBT MEDIATION ACT,
FARM DEBT MEDIATION SERVICE AND
FARM CONSULTATION SERVICE**

1. INTRODUCTION:

Section 28 of the *Farm Debt Mediation Act* (1997, c. 21) requires that the Minister of Agriculture and Agri-Food periodically review the operations of the Act and report to Parliament on the results of that review. The review is also to cover any program or service created for the undertaking of a detailed review of the financial affairs of a farmer in financial difficulty. This report to Parliament is in accordance with those provisions of the *Farm Debt Mediation Act*.

2. BACKGROUND:

The *Farm Debt Mediation Act* received Royal Assent in 1997 and came into force on March 31 1998. The *Farm Debt Mediation Act* replaced the *Farm Debt Review Act* which had been in force since 1986.

The *Farm Debt Review Act* was developed in 1986 to assist with the resolution of the debt problems of an unusually large number of farmers that were experiencing financial difficulty in the early to mid-eighties. A somewhat similar, though more severe, set of financial circumstances in the late thirties led to the introduction of the *Farmers' Creditors and Arrangement Act*. While never formally repealed, this particular Act has been dormant since the forties.

In recent years the incidence of serious financial circumstances in the farm sector and, accordingly, the demand for debt mediation services, has been at a reduced level from what it was in the eighties and early nineties. However, the current activity levels are still significant and the provision of debt mediation is important to farmers who require the service which is now generally accepted as an established and useful program for the agricultural industry.

The policy objective of the current, and the previous legislation, is to provide a forum through which insolvent farmers and their creditors can attempt to reach arrangements regarding the debts and obligations that are satisfactory to all parties.

To complement the provisions of the *Farm Debt Mediation Act*, Agriculture and Agri-Food Canada introduced a financial consulting services program for farmers known as the Farm Consultation Service. Introduced in 1998, the FCS was available to Canadian farmers through March 2003 (except in Quebec where it was available to farmers through early 2005) when its services were integrated into the Canadian Farm Business Advisory Service.¹ The FCS was designed specifically to meet the needs of farmers with cash flow difficulty but not insolvent. Whereas the FCS was available to farmers in financial difficulty, the Canadian Farm Business Advisory Service is available to any interested farmer with annual gross farm sales of \$10,000 or more and offers farmers a similar package of financial services to that offered under the FCS. The only difference, in the form of an added service, is that the Canadian Farm Business Advisory Service includes a follow-up visit up to one year after the financial consulting services were initially provided.

To ensure effective availability of the services of both programs to farmers in all parts of the country, Agriculture and Agri-Food Canada maintains five offices: in Fredericton (serving the Atlantic provinces), in Québec City (Quebec), in Guelph (Ontario), in Regina (Manitoba and Saskatchewan) and in Edmonton (Alberta, British Columbia, Yukon Territory, Northwest Territories and Nunavut). A single toll-free telephone number is available so that a farmer in any part of the country may easily make contact with the appropriate Farm Debt Mediation office.

A report to Parliament in 2001 covered the FDMS and FCS activities for the period 1998/1999 through 1999/2000. This report covers fiscal periods 2000/2001 through 2003/2004 inclusive for the FDMS and fiscal years 2000/2001 through 2002/2003 inclusive for the FCS. (The Canadian Farm Business Advisory Service program was implemented gradually during the 2003/2004 fiscal year. There were Farm Consultation cases carried over from 2002/2003 in regions where the Canadian Farm Business Advisory Service was not implemented during 2003/2004.) It draws on findings from an operational review and evaluation of the FDMS and of the FCS, carried out for Agriculture and Agri-Food Canada and completed in February 2005. The period covered by the review and evaluation was the same as the period covered by this report to Parliament - 2000/2001 through 2003/2004.

3. PROGRAM DESCRIPTIONS, OBJECTIVES AND ACTIVITY LEVELS:

This section of the report provides descriptions of the two programs - FDMS and FCS -

¹The Canadian Farm Business Advisory Service offers three services: Farm Business Assessment, Specialized Business Planning Service and Planning and Assessment for Value Added Enterprises. In this report, references and comparisons between FCS and CFBAS refer only to the Farm Business Assessment service offered under CFBAS.

their objectives and the activity levels in each program during the review period. As the nature of the programs and their objectives did not change since the last report, the program descriptions below are substantially the same as in the report to Parliament in 2001.

FARM DEBT MEDIATION SERVICE

The FDMS provides insolvent farmers and their creditors with mediation services pursuant to the Act and its Regulations to help them reach a mutually-satisfactory arrangement. The service is private and confidential. An insolvent individual, corporation, partnership, cooperative or other association engaged in farming for commercial purposes is eligible to apply to the FDMS. To be considered insolvent under the Act, an applicant must satisfy one of the following criteria: be unable to meet financial obligations as they come due; have ceased paying current obligations in the ordinary course of business; or, be in a situation in which the value of their property would not be sufficient to enable payment of their obligations.

The specific services available to insolvent farmers under the FDMS are: a stay of proceedings, a detailed review of the farmer's financial affairs, preparation of financial statements for the farm operation, preparation of a recovery plan and finally, and most importantly, mediation between the farmer and creditors. The recovery plan for the farm business that is presented to the mediation meeting is one chosen by the farmer and prepared on his/her behalf by the FDMS financial consultant.

An insolvent farmer has two options in regard to making application under the *Farm Debt Mediation Act*: One is to apply under Section 5(1)(a) of the Act; the other is to apply under Section 5(1)(b). Under both Sections of the Act, a farmer is entitled to a financial review, preparation of a recovery plan and mediation. If a farmer receives a notice of intent to realize from a creditor, he/she would normally apply under Section 5(1)(a) of the Act which provides the protection of a stay of proceedings as well as financial review, preparation of recovery plan and mediation. The stay of proceedings restricts a creditor from realizing on security for a specified period of time - initially 30 days and with the possibility of up to three extensions of 30 days each. During the stay, the farm financial review is completed and a recovery plan prepared and then mediation occurs between the farmer and his/her creditors. An insolvent farmer who had not received a notice from a creditor would apply under Section 5(1)(b) of the Act which provides for a financial review, preparation of a recovery plan and mediation. Regardless of which of the two options a farmer chooses at the time of application, he/she may, at any stage of the process, change to the other option and apply under the other Section if it is to his/her advantage to do so. Additionally, although a farmer may not re-apply under the same Section of the Act within two years, he/she may re-apply under a different Section of the Act within the two-year period.

The financial review services under the *Farm Debt Mediation Act* are provided by private sector financial consultants and mediators. As the consultants and the mediators are compensated by Agriculture and Agri-Food Canada, there is no charge to the farmer or creditors to use the FDMS. The consultants and mediators for different cases are selected from lists of consultants and mediators who have been found qualified and been approved by Agriculture and Agri-Food Canada and who have standing offers with one of five regional FDMS offices. The lists of qualified consultants and mediators are the result of a competitive contracting process. To be on the list, consultants and mediators must demonstrate that they have the necessary training, experience and abilities. Providing they apply through the competitive contracting process for each service, financial consultants may provide consulting services to both the FDMS and the FCS. The amount of remuneration that consultants and mediators receive for each case is predetermined and fixed in the standing offer.

FARM CONSULTATION SERVICE

The Farm Consultation Service was targeted to farmers who were either experiencing cash flow difficulties or anticipating them. It provided services designed to help the farmer refocus the operation with the objective of improving the financial situation and thereby perhaps avoiding insolvency and the need to make use of the FDMS. Through the FCS, the farmer had access to a qualified financial consultant who provided financial analysis and worked with the farmer on actions that should be taken to address current and anticipated financial problems. The farmer pays a nominal fee towards the costs of providing the FCS and Agriculture and Agri-Food Canada pays the balance.

The process in the delivery of the FCS is generally the same for each case. The financial consultant first makes a visit to the farm, meets with the farm family and obtains the necessary financial information. Then, he/she prepares an overall financial plan. The first phase of the plan is the preparation of financial statements - income statements and balance sheets - for the previous (i.e. last) two years. The next step is to make a projection of income and expenses and cash flow to determine the viability of the existing farm business. At this point, the consultant and the farmer, working together, re-examine the current and anticipated financial situation and consider alternatives that might improve it. In the normal course of events, though not always, more than one alternative would be identified. Each of these alternatives is then examined and compared to assess feasibility, profitability, whether it meets with the farmer's objectives, abilities and preferences and so on. Then, ideally, the farmer chooses the alternative and the course of action that best suits his/her situation. The consultant then develops a practical operational plan for that alternative. Once the basic operational plan is decided, the consultant makes income and cash flow projections two years into the future. This latter step allows for some analysis of the risk and potential impacts of unfavorable events such as lower market prices, inclement weather, higher input costs etc, that could affect the viability of the farm

business during that period. The situation of each farm and farmer is unique and the emphasis in each case depends on the characteristics of the particular farm.

In addition, the consultant prepares a written report to accompany the financial information, financial statements and operational plan. This written report provides a summary of the services provided and the discussions with the farm family along with the alternatives considered, the rationale for the chosen alternative and a description of the proposed plan. The components of the description of the plan include, as appropriate, information pertaining to marketing, production, human resources, financial assessment and plan of action. Farmers who used the FCS reported that they found these reports very useful not only in the immediate term but also in the longer term as reference documents as they make the transition from their current situation to their chosen course of action. In some cases, the options to improve the farm situation are straightforward and obvious. In others, the situation can be very complicated and this makes finding practical means to improve it a much tougher assignment. Therefore, while the services offered to each farmer by the FCS are the same, the difference that they can make varies somewhat from one case to another.

It is important to note again that both services - Farm Debt Mediation and Farm Consultation - consider the farm family, and not just the farm operator as the client. This orientation towards the family is simply recognition of the fact that all farm family members usually have a stake in the future of the farm. Accordingly, both services ensure that family members are involved, as appropriate, at each stage of the process.

ACTIVITY LEVELS UNDER FARM DEBT MEDIATION AND FARM CONSULTATION SERVICES

Activity reports for the FDMS and for the FCS show, province by province and at the Canada level, the number of applications and the disposition of those applications over the entire four-year review period.

ACTIVITY REPORT FOR FARM DEBT MEDIATION SERVICES BY PROVINCE AND CANADA 2000 - 2004

	Applications Received Under Section 5(1) of FDMA			Applications Withdrawn/ Rejected	Applications Completed		
	5(1)(a)	5(1)(b)	Total		No Arrangement	Arrangement Signed	Total
Newfoundland and Labrador	7	3	10	1	3	6	9
Prince Edward Island	30	17	47	0	31	19	50
Nova Scotia	22	16	38	4	9	23	32
New Brunswick	48	10	58	8	28	23	51
Quebec	371	314	685	107	120	453	573
Ontario	276	68	344	103	50	198	248
Manitoba	117	67	184	45	17	124	141
Saskatchewan	231	336	567	102	78	395	473
Alberta	315	110	425	87	31	298	329
British Columbia	69	16	85	21	16	51	67
Canada	1486	957	2443	478	383	1590	1973

Source: Annual (fiscal year) activity reports for FDMS - 2000/2001 through 2003/2004 inclusive. A total of 2443 farmers applied to the FDMS during the review period and a total of 1973 - about 80% - had a financial review and mediation. In the period, Quebec farmers made the greatest use of the Mediation Service - both absolutely and relatively. The next highest level of activity was in Saskatchewan, followed by Alberta and Ontario. Though the number of participants in the Atlantic provinces was fairly small, the relative level of use was greater than all other provinces, except Quebec, because of the smaller number of farmers.

ACTIVITY REPORT FOR FARM CONSULTATION SERVICES BY PROVINCE AND CANADA 2000 - 2004

	Applications Received	Applications Withdrawn/Rejected	Applications Completed		Total
			Financial Statement Only	Financial Statement & Operational Plan	
Newfoundland and Labrador	2	0	0	2	2
Prince Edward Island	68	7	13	35	48
Nova Scotia	133	13	6	126	132
New Brunswick	34	4	2	31	33
Quebec	460	60	10	396	406
Ontario	221	37	4	182	186
Manitoba	246	28	7	213	220
Saskatchewan	1728	155	50	1474	1524
Alberta	310	58	4	259	263
British Columbia	73	14	0	61	61
Canada	3275	376	96	2779	2875

Source: Annual (fiscal year) activity reports for FCS - 2000/2001 through 2003/2004 inclusive. With 3275 farmers participating over the four-year review period, the demand for the FCS was 34% greater than for the FDMS in the same period. As in the previous review period, over 50% of all Farm Consultation participation was from Saskatchewan. Farmers in Quebec and the Atlantic provinces were also proportionally greater users of the service than farmers in the other provinces.

Activity levels under the FDMS were fairly stable, year over year, in the review period. This was the case for the number of applications received, the proportion of applications under Section 5(1)(a) and Section 5(1)(b), the proportion of applications rejected or withdrawn and the proportion of completed cases that reached a satisfactory arrangement. Given the relative stability, on average, in farm financial conditions during the review period, it was not unexpected that FDMS activity levels were also relatively stable.

TYPES OF DECISIONS MADE BY PARTICIPANTS

A matter of ongoing interest regarding farmer participants in the FDMS and in the FCS is the kinds and types of decisions they make and the actions they take, in part, though not necessarily entirely, as a result of their involvement with the programs. The chart below shows, for the review period, the number and percentage distribution of the primary types of actions/decisions taken by participants in both programs.

Types of Decisions Taken by Farmer Participants

Farm Debt Mediation			Farm Consultation		
Decision/Action	#	%	Decision/Action	#	%
Accept off-farm employment	24	2	Accept off-farm employment	120	4
Restructure debt	696	44	Restructure debt	1174	41
Dispose of some farm assets	452	28	Scale down	429	15
No change	29	2	Expansion	415	15
Satisfactory exit	242	15	Diversification	179	6
Other	142	9	Other	553	19
Total	1585	100	Total	2870	100

Notes: For the Farm Debt Mediation Service, the 'other' category includes mainly decisions which involved more than one action, such as a management change combined with debt restructuring and /or sale of some assets. For the Farm Consultation Service, the 'other' category also includes mainly decisions which involved more than one action - such as debt restructuring combined with sale of assets.

There are many similarities between the two services in terms of the types of decisions/ actions taken by farmer participants during the review period. Debt restructuring is the most common action taken by participants in both services to improve their situation; it is a course of action in over 40 percent of cases. The next most common action, and again in both services, is to dispose of some assets or scale down. For participants in these services, these types of decisions are to be expected since debt levels and debt servicing are a concern for clients of both programs. The difference is that debt is more of a concern for Farm Debt Mediation participants as they are already insolvent. While participants in Farm Consultation usually have an underlying concern about debt, their main concern is to get their business back on track, so to speak, and restore it to financial stability and profitability. About 15% of participants in Farm Debt Mediation in the review period exited the industry whereas none of the participants in the FCS chose to leave farming. This is primarily explained by the fact that the financial position of Farm Debt Mediation participants are much more precarious and accordingly they are often more likely to choose to exit farming and/or take other serious measures in order to resolve their debt problems.

During the financial review process in both services, and depending on the seriousness of the farmer's financial situation, a farmer often has the opportunity to consider a fairly broad range of options. In the course of considering these alternatives, farmers are often made aware of other resources and information sources such as opportunities for training and contacts for other programs and for other expertise. The objective here is to assist them in pursuing their business, personal and family goals.

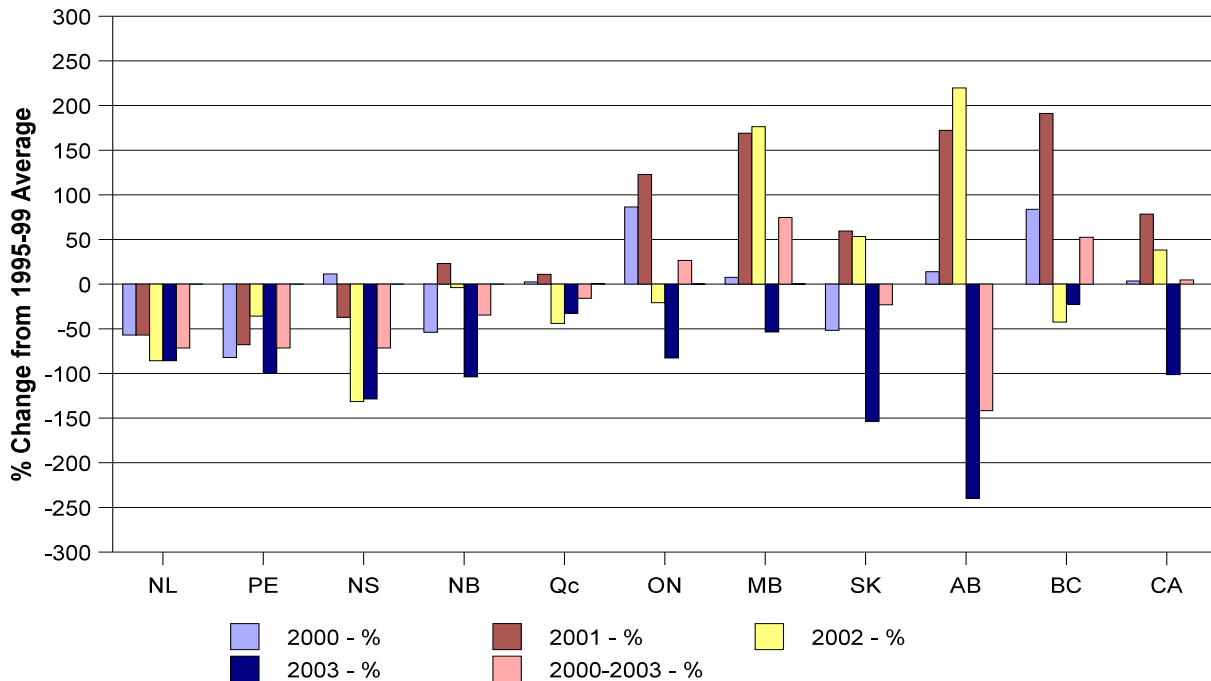
4. PERSPECTIVE ON CANADA'S DOMESTIC FARM ECONOMY IN REVIEW PERIOD:

During the period covered by this review, Canada's domestic farm economy experienced, as is common, both positive and negative pressures and influences. At the same time, within the overall agriculture sector, different sub-sectors are often subject to different economic conditions. Some arise from domestic events and pressures; others arise from international events and economic conditions. This was the case during the four-year period 2000/2001 through 2003/2004.

At the national level, farm financial conditions over the entire review period were, on average, relatively stable. For Canada, realized net farm income averaged \$2.2B per year over the four calendar years of the review period, 2000 through 2003, and was about the same – just slightly higher – as the average of \$2.101B per year in the five-year period, 1995 through 1999. At the same time, within Canada there was considerable variation when comparing the same four-year periods. Chart 1 shows, for each province and for Canada, the percentage change in average realized net farm income for each year

of the four-year period 2000 through 2003 from the previous five-year period, i.e. from the average of the five years 1995 through 1999. It also shows the percentage change in realized net farm income for the entire review period, 2000/2003 relative to the base period, 1995/1999.

**Chart 1: Realized Net Farm Income – Provinces and Canada – 2000-2003
% Change from 1995-99 Baseline**



Source: Statistics Canada, Catalogue Nos. 21-010-XIE and 21-011-XIE, Agriculture Economic Statistics 2004

Among the provinces, realized net farm income was, on average, significantly lower in the review period as a whole in each of the Atlantic provinces and somewhat lower in Quebec and Saskatchewan. In the other four provinces - Ontario, Manitoba, Alberta, British Columbia - realized net farm income was greater in the review period than in the base period. It is important to note that, in calendar year 2003, realized net farm income was lower in each province, and in most cases, very significantly so, than the average for the review period 2000/2003, or for the period 1995/1999. However, for 2004, realized net farm income, at the Canada level, is forecast to increase – from a negative \$.028B in 2003 to a positive \$1.6B in 2004.

Individual sub-sectors and individual farmers experienced varying degrees of profitability in the review period. During the review period, for example, the grains and oilseed-sub-sector experienced both weak and strong prices, there were extended droughts - 2001, 2002 and 2003 - in parts of the Prairies and British Columbia, the hog market experienced cyclically weak prices and most seriously, the cattle market was severely affected by the price collapse following the May 2003 discovery of Bovine Spongiform Encephalopathy (BSE). Additionally, during the review period, there was pressure on certain sub-sectors from increasing strength in the Canadian dollar which made Canadian agricultural products for export more expensive in foreign markets. Since some commodities are concentrated in some provinces more than others, the strengths or weaknesses in particular sub-sectors are naturally felt unevenly among provinces.

By far the dominant negative economic factor for the Canadian farm sector in the review period was the impact of the discovery of BSE. As a result, the United States and several other countries imposed severe restrictions on the import of Canadian cattle and beef. The resulting build up of excess stocks of both live cattle and meat in Canada had a drastic effect on live cattle prices in Canada. The annual weighted average price of slaughter cattle in Canada declined significantly from 2002 to 2003 and again from 2003 to 2004.

5. **CONTRIBUTION OF THE FARM DEBT MEDIATION AND FARM CONSULTATION SERVICES TO DEPARTMENTAL PRIORITIES AND TO RISK MANAGEMENT IN THE AGRICULTURE SECTOR:**

Both the FDMS and the FCS have continued to contribute to the goals of helping the sector maximize its contribution to Canada's economic objectives and of producing safe high quality food with environmentally-sound practices while maintaining a strong foundation for the agriculture and agri-food sector and rural communities. Within this latter priority, the services contribute to greater self-reliance within the sector, to taking advantage of market opportunities and providing assistance to those negatively affected by changes that impact on the farm economy. Both services do this by assisting participants to improve their income and their financial position. Participants in these services take a variety of steps to do this, including farm business expansion or downsizing, adding new enterprises or divesting existing enterprise(s), diversifying income sources through for example non-farm employment, debt restructuring or improving productivity by reducing costs or improving revenues of existing enterprises.

The FDMS and FCS programs are an integral component of the programs and services offered to farmers by the Department. This is even more the case now that the Canadian Farm Business Advisory Service, the successor to the FCS, is available to a broader spectrum of Canadian farmers than was the FCS.

Risk management in any enterprise - whether in agriculture or in any other sector - is ultimately the responsibility of the owner and/or manager. At the same time, in agriculture, governments typically assist the agriculture sector to manage risk by helping to reduce the private costs of risk management.

The FDMS and the FCS contribute to the Department's suite of programs to assist the sector, through assisting individuals, to manage risk or to recover from the effects of risky events occurring. They are complementary to other Departmental programs and to risk management programs in particular and do not overlap or conflict with other programs offered by the Department. Generally, they are the only Departmental programs targeted specifically to individual farmers experiencing debt-related financial difficulty or who simply want to get ahead through better financial management, planning and control. More generally and in terms of farmers' management of the ongoing risks that they encounter in their farming lifetimes, there are uninsurable financial risks in most farming enterprises. Some of these uninsurable risks can be managed to some extent - say through enterprise selection or through production and market risk programs in which producers and governments cost-share some of the production and/or market risks. An example is the recently introduced Canadian Agricultural Income Stabilization program which is 'helping producers protect their farming operations from both small and large drops in income'. It is a comprehensive risk management program focused on dealing with levels of income on individual farms.

The risk-related programming niche that FDMS fills that is not addressed by the Canadian Agricultural Income Stabilization program is that where income levels, either from a drop in income or from simply being inadequate, results in, or is associated with, debt servicing problems and insolvency. When income problems result from unfavorable outcomes - e.g. events such as BSE, crop failure, disease or just serious errors in judgment and management - and these income problems intersect with and are compounded by difficulties in servicing debt, the FDMS can be accessed - almost as another form of insurance - by farmers who may need such assistance.

One of the effective ways of monitoring whether the FDMS and FCS programs are keeping up with, and adequately addressing, clients' needs is the evaluation/feedback responses that farmers and creditors are invited to provide on conclusion of the services. These evaluations provide a unique opportunity for both farmers and creditors to express how they feel. Agriculture and Agri-Food Canada is currently introducing revised feedback forms which will better capture clients' perceptions as to whether their needs are being met. Additionally, the national database contains protected information on the balance sheets, income statements, enterprise types and so on of Farm Debt Mediation and Farm Consultation Services clients. Changes, over time, in this information, can indicate changes in the characteristics, and logically the needs, of FDMS and FCS participants. To be most useful for this purpose, it is important that managers continue to monitor and review the information and trends in the national database for these services.

6. ASSESSMENT OF FDMS AGAINST PROGRAM OBJECTIVES AND HIGHLIGHTS OF OPERATIONAL REVIEW - 2000/2001 THROUGH 2003/2004:

The *Farm Debt Mediation Act* requires periodic operational reviews of the FDMS and any other financial service or program to assist farmers. An evaluation of the FDMS and of the FCS was conducted for Agriculture and Agri-Food Canada in the fall of 2004 and early 2005. The framework for the evaluation was prepared by the Review Branch of the Department which was the client for the results of the evaluation. The evaluation framework identified four main issues/questions to be examined in the course of the evaluation. They were: appropriateness of program design; achievement of results; costs and benefits; and management effectiveness. The framework also identified potential indicators for each of the issues/questions and data sources. The final evaluation report was completed in February 2005.

The review/evaluation was based in large part on information garnered through personal interviews of 76 persons - farmers, creditors and other stakeholders such as financial consultants, mediators and program managers in all provinces. Additionally, feedback forms completed by farmers and creditors at the conclusion of mediation were reviewed and analyzed, along with data on participation levels, program documents and the national database. The report - 'Evaluation of the Farm Debt Mediation Service (FDMS) and the Farm Consultation Service (FCS) Final Report -February 2005' is available in electronic form on Agriculture and Agri-Food Canada's website at http://www.agr.gc.ca/progser/fdms_e.phtml. Hard copy may be obtained by contacting Agriculture and Agri-Food Canada.

The review found a high level of satisfaction among participants in both the Farm Debt Mediation Service and the Farm Consultation Service. From practically all sources, there was broad agreement that the programs are achieving their objectives and are very well regarded. As an illustrative example, analysis of a random sample of farmers and creditors comments at conclusion of mediation, found that 100% of farmers and 92% of creditors felt that FDMS were overall either satisfactory or very satisfactory.

The overall message of the evaluation report is conveyed by the following excerpt: 'On balance, based on the survey and evaluation forms completed by FDMS participants, the FDMS is now a mature and established program that seems generally well accepted and understood across the farm and farm lending communities. Both farmers and lenders indicate a high degree of acceptance and have a favorable attitude towards the program. By reasonable measures, the program is achieving its objectives while evolving by learning from operating experience and reflecting the changing realities in the farm sector and in the creditor and lending communities. Over time, program managers continue to make operational and regulation changes, as required, to respond to experiences in the field and to simplify and/or improve the process.'

While the evaluation findings of Farm Debt Mediation were overall very positive, it must be noted that there were some participants, albeit a minority - among both farmers and creditors- whose experience had not met their expectations. Their viewpoints, observations and insights were as important and valuable as those whose experience did meet their expectations.

The evaluation also found a very positive response to the services provided under the Farm Consultation Services. The following excerpt from the evaluation report is indicative of the overall findings on FCS: 'Based on subjective feedback from program managers, lenders and financial consultants, the Farm Consultation Service met its objective of helping farmers in financial difficulty resolve their problems and potentially avoid the use of the Farm Debt Mediation Service. Among those familiar with the Farm Consultation Service, there were no negative perceptions. Comments ranged from 'a wonderful service' to 'heard nothing but good comments about Farm Consultation Service'.

7. DEVELOPMENT AND EVOLVEMENT OF PROGRAMS AND SERVICES FOR AGRICULTURE SECTOR IN REVIEW PERIOD:

Over time, government programs and services for agriculture evolve to better suit the needs of the sector. This has been true with respect to the FDMS and the FCS.

AGRICULTURAL POLICY FRAMEWORK (APF)

Two elements of the Agricultural Policy Framework - renewal and business risk management - are germane to the FDMS and to the FCS. Renewal is the most directly related to the Farm Debt Mediation and FCS. At the same time and as outlined previously, the objectives and services provided by the two programs are also linked to business risk management and business risk management programming in that, in achieving their objectives, they assist participating farmers to deal with and reduce financial risks.

RENEWAL AND ADAPTATION

Within the Agricultural Policy Framework, the aim of Renewal is to help all farmers assess their situations and options, and acquire the skills and resources needed for success in 21st century agriculture.

Federal and Provincial Ministers have agreed on the following Renewal outcome goals for farmers:

- ▶ to increase their profitability;
- ▶ to enable them to make choices about sources of income;

- ▶ to help them meet market and consumer demands respecting food safety and food quality and environmentally-responsible production; and
- ▶ to help capture opportunities from science and innovation.

Although the FDMS was in place before the Agricultural Policy Framework and its renewal component were developed, it is a good fit with the renewal objective and goals. The services provided to farmers through Farm Debt Mediation are consistent with renewal's objective of helping farmers assess their situation and their options, identify needed changes and where appropriate provide referrals to offices and agencies that can help them acquire needed resources and skills. While the farmer participants in Farm Debt Mediation are only a sub-set of the general farm community, the services they get are directly in line with the renewal mandate.

The FCS was also developed prior to implementation of the Agricultural Policy Framework and the renewal component but again was a natural fit with both. The renewal objective is to help farmers assess their situations and options and that is what the FCS offered. As noted earlier in this report, the target audience for Farm Consultation was farmers experiencing, or anticipating, financial difficulties from whatever source. As set out in the brochure for the Service, it 'offered one-on-one counselling and advisory services, identification of problems and alternatives and development of a farm business plan, a financial review of the farming operation, a current set of financial statements and development of 2 to 3 year operational plan with projected income and expense statements.' These services to that target audience were consistent with renewal's objective.

NEW PROGRAMS AND SERVICES

As Renewal has matured, it has moved to expand the complement of programs and services offered to farmers. The renewal component of the Agricultural Policy Framework has been evolving programs and developing additional programs and services to better meet its goals and to round out the suite of offerings to farmers. In this regard, the FCS evolved from a service targeted to farmers with financial difficulties, or with anticipated financial difficulties, to one available to all interested farmers with annual sales of \$10,000 or more. The service, now called the Canadian Farm Business Advisory Service (CFBAS), still offers the same services to farmers in financial difficulty as did Farm Consultation, but is targeted to a much expanded audience. One new element in the Canadian Farm Business Advisory Service, and not previously available under Farm Consultation, is a follow-up visit to the farm one year later to assess progress in the farm business against the plan and to provide information as required. The Canadian Farm Business Advisory Service replaced the FCS in April 2003 and is now available to farmers in all provinces and territories including Quebec where it became available later in the 2004/2005 fiscal year. The fact that the Canadian Farm Business Advisory Service is

available to any interested farmer makes sense in that it is not just farmers in financial difficulty who want to do better and who can make good use of financial analysis and farm planning services. Experience to date is that there is good interest in the Canadian Farm Business Advisory Service. Although still early in the life of this program, there were over 1200 applications to the Canadian Farm Business Advisory Service by the end of January in fiscal 2004/2005, compared to 900 applications to the FCS in its last full year 2002/2003.

Renewal introduced two other new initiatives for farmers during 2004. They are the Special Business Planning Services (SBPS) and the Planning Assistance for Value-Added Enterprises (PAVE) and is launching the Canadian Agriculture Skills Service (CASS) program in 2005. The first two programs - cost-shared between the federal government and the farmer - provide specialized planning assistance - primarily for farm business expansion and succession planning and for development of value-added enterprises respectively. The Canadian Agriculture Skill Service program will be oriented to human resource development and will assist farmers and family members to assess their own interests and capabilities and when appropriate to acquire new skills and/or upgrade existing skills.

8. FUTURE STEPS

Agriculture is knowledge-intensive, and producers are increasingly engaging in continuous learning to keep pace with change. The policy direction of the Renewal component of the Agricultural Policy Framework is to assist farmers to enhance their profitability, and enhance networks to better link scientific advances to the creation of new economic opportunities. Renewal efforts include enhanced public and private business management and consulting services, management and marketing information to assist farmers.

Farmers, as do all business managers, operate in a dynamic and rapidly changing economic environment. Both opportunities and pressures are constant challenges. The requirement to change, to adjust and to adapt are hallmarks - in the short and in the long term - of modern farming. Both the FDMS and its companion program, the FCS - and its successor the Canadian Farm Business Advisory Service - fit well within the policy priorities of the renewal component of the Agricultural Policy Framework. They acknowledge a public interest in assisting farm families to cope with the impact of both foreseen and unforeseen events. As virtually any type and size of farm business can encounter financial difficulties, either debt-related or not, these two programs offer a valuable service to such farms and families.

As noted earlier, evolving the FCS (FCS) into the Canadian Farm Business Advisory Service (CFBAS) and targeting it to the general farm community and not just to farmers

experiencing financial difficulty makes good public policy sense and is more equitable. The services are still available to farmers in financial difficulty and in addition are available to interested farmers who, though not in financial difficulty, simply want to improve their farm business and at the same time take advantage of a low cost service that can help them do so.

The FDMS is now a mature program and an accepted component of services to the farm sector. As it has matured, program managers have observed the strengths and any weaknesses in the *Farm Debt Mediation Act* and the FDMS. In this regard, the Department intends to examine whether or not it should implement the provisions for monetary penalties for persons or firms who do not respect the provisions of the *Farm Debt Mediation Act* and its regulations. At present, this provision, which is provided for in the Act, has not been implemented and there is some evidence that there is a need for some form of penalty for parties who do not respect provisions of the Act. The Agriculture and Agri-Food Canada *Administrative Monetary Penalties Act* (AMPA) would provide the authority needed to implement such penalties.

The *Farm Debt Mediation Act* and the FDMS have now been in place for nearly seven years. Accordingly, it is now appropriate to examine their long run impact. Farmers who used the services in the first three years, i.e. 1998/1999 through 2000/2001, will be surveyed for this purpose. The Department is well advanced in the design of a questionnaire for this survey/study and will carry it out in fiscal year 2005/2006.

As noted earlier, the operational review/evaluation of the FDMS and of the FCS found a very high level of satisfaction with both services among those with a stake in their services. At the same time, in the course of the review, the Department received some valuable suggestions for change or improvement to certain aspects of both services. These suggestions will be carefully reviewed by the Department and acted upon as feasible and appropriate.

9. NEXT REPORT

As provided by the *Farm Debt Mediation Act*, the Minister will next report to Parliament on the *Farm Debt Mediation Act* and the FDMS in three years' time, in 2008. The Canadian Farm Business Advisory Service will be evaluated as part of the ongoing evaluation of the Renewal Programs.