Intelligence MEMOS

Canada's Crown corporations form a major part of the economy, but rarely draw detailed scrutiny. In his latest C.D. Howe Institute Commentary and in this special Intelligence Memo series, Fellow-in-Residence Glen Hodgson assesses governance at FCC.

From: Glen Hodgson

To: Overseers of Crown Corporations

Date: June 23, 2021

Re: **How is Farm Credit Canada Governed?**

Farm Credit Canada's policy purpose is to enhance rural Canada by providing specialized and personalized business and financial services and products with the primary focus on farming operations, including family farms. A number of operating authorities are provided in its governing legislation, principally loans, guarantees, lease financing and equity investments, plus related business products such as advisory services.

This legislated role is important but within rather traditional limits – it focuses on clients and does not explicitly mention enhancing the overall Canadian agri-food sector. The *Farm Credit Canada Act* also refers to the CEO being "appointed" by the Governor in Council, which is no longer good Crown governance practice – boards should have that role. A word like "confirmed" would be more appropriate.

The most important framework question is how FCC operates in the financial services market, and the market gaps it addresses. It is primarily positioned as a market competitor, as its 2019-20 Annual Report states: "A healthy marketplace competition and a choice of financing are necessary for Canadian producers and agribusinesses to be successful through all economic cycles."

Ensuring adequate competition and providing customers in a given sector with wider choice and access to competitive financing terms is a legitimate policy role for a Crown corporation – but that is just the beginning of the discussion. A 2013 C.D. Howe Institute study found that FCC's share of farm loans had grown to almost a third of the market, which seemed high. It currently holds almost $40 billion in loans extended to 100,000 customers.

Where exactly is more competition required in financial and credit markets in support of farming operations and agri-business? It could be related to: market segments; risk appetite and the volume of credit and investment available to the farm and agri-food community; the terms, conditions and pricing available in the market; and access to financing through the entire business cycle.

The reference to "all cycles" is an important indication of one market gap FCC seeks to address. That said, crowding out available private financing is not a desirable outcome, so more precision on how FCC contributes to a healthy and competitive financing marketplace would be useful to confirm that it is adding value in a competitive market.

Arguably, the most important role for a financial Crown like FCC is to help build overall market capacity, by working closely and in a complementary fashion with private sector financial sector institutions. FCC says it works collaboratively with credit unions and fellow federal Crown corporations, Business Development Canada and Export Development Canada, to address market and policy issues, and it partners with Canadian financial institutions to provide financing for larger agriculture operations and agribusinesses. This is a useful start, but FCC and its shareholder could take a more strategic approach to developing overall financial market capacity for the agricultural and agri-food sector. For example, it could introduce specific initiatives and facilities that promote co-financing and risk-sharing between FCC and private financial institutions.

The most prominent possible gap in FCC's framework governance is related to public review and dialogue on its role. There is no requirement for a formal review of FCC's mandate and operations included in its governing legislation, as has been the case for BDC and EDC for decades.

It is curious that a public review has not been added to FCC's legislation, which points to an overall inconsistency in how the government and Parliament carry out Crown oversight. A regular legislative review would go a long way in demonstrating to the public and to Parliament that its mandate, market positioning, and business operations are meeting the evolving expectations and often-competing demands of its shareholder, customers, stakeholders and taxpayers.

In terms of specific governance, FCC appears to meet a high standard. Its annual report contains detailed reporting on its governance engagement with its shareholder, the federal government. FCC also makes available the specific written guidance received from its responsible minister, its annual corporate plan, and other policy and audit documents.

Overall, the federal government has some governance areas to address in the *Farm Credit Canada Act,* which would benefit from modernization, notably with the addition of a public review of FCC's mandate and performance. The corporation itself is using effective specific governance practices, but it could be more precise in how it is working to grow overall financing capacity for the agricultural community. That is precisely the kind of issue a public review could consider.

Glen Hodgson is a senior fellow at the C.D. Howe Institute.

To send a comment or leave feedback, email us at blog@cdhowe.org.