



Sheep Finance and Beef Cow-Calf Finance Program Validation Final Report

**A Review to Aid the Ontario Sheep Marketing Agency
And the Beef Farmers of Ontario
In Supporting Expansion-Minded Producers**

September 2017

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Executive Summary

The Ontario Sheep Marketing Agency (OSMA) and the Beef Farmers of Ontario (BFO) have for several years been promoting expansion of their industries and advocating for programs and services to incent and support producer expansion efforts. The organizations have also expended considerable effort and funding on tools and strategies to assist expansion-minded producers. One business expansion element that their members often request be addressed is the challenge of securing financing for flock or herd expansion.

For several years OSMA and BFO have respectively requested of the Ontario Government an Ontario Sheep Finance Program and a government guarantee in support of the existing Beef Breeder Co-operative Program. Government response has disappointed the organizations. The requests to government to date have lacked the support of a thorough analysis documenting the need for and the benefits that would accrue from the desired initiatives. This project was undertaken to provide OSMA and BFO with the evidence required to support of their requests or to determine that their efforts could be better directed elsewhere.

Three Critical Questions

What is needed in terms of alternative financing options to incent Ontario sheep and beef producers to expand their flocks and cow herds?

If an Ontario Sheep Finance Program was introduced and a government guarantee provided in support of the current Ontario Beef Breeder Co-operative Program, to what extent would producers employ the programs?

In the absence of the programs being examined, will conventional lenders provide the financing required to support flock and herd expansion?

The consultants undertook an extensive process to investigate the outstanding issues with the approach details outlined in the next section of this report.

Chief Findings:

- While producers request government involvement in their access to expansion financing, on the basis of sound financial planning and the documented ability to service the debt, most experienced producers have the capacity to source financing through conventional, commercial lenders.
- There are multiple impediments to expansion, several of which are more significant in both the sheep and cow-calf sectors than availability of financing.

- The primary motivation for producers in seeking government-backed loan programs is the ability to secure financing without the need to conduct the due diligence and financial planning required by commercial lenders. They seek a farmer-friendly process and easy access to funding.
- The benefits that can accrue to producers from a government supported loan program are over-stated. Most of the savings from lower interest rates are offset by program membership and administration costs. Assurance account deposits significantly reduce the available funds.
- There are insufficient sheep and sheep producers in concentrated areas of the province to sustain a provincial co-operative loan program.
- Producer participation in existing government support programs is underwhelming, suggesting that uptake of government supported loan programs could follow the same pattern.
- It is highly doubtful based on current program participation that the benefits from a government guarantee underpinning the Beef Breeder Co-operative Program would incent meaningful program growth and hence herd expansion. (Currently one percent of the provincial beef cow herd is financed each year with program loans.)
- Access to financing is in most cases available from commercial lenders. Low equity, beginning farmers are the exception. This project was undertaken to explore expansion rather than start-up financing needs. Most operating businesses have the capacity to meet lender requirements.
- There are exceptions to the above. Instances exist where expansion cannot proceed at the rate producers would prefer due to limitations in financing. A co-operative loan program could provide access to funds in addition to that sourced through conventional lending institutions.
- There are several potential opportunities to amend the existing Beef Breeder Co-operative Program to address the shortfalls identified by producers.
- There are a number of initiatives that could be undertaken by both OSMA and BFO to enhance their efforts to support producers wishing to expand their flocks and herds.

Recommendations:

- Beef Farmers of Ontario should not pursue a government guarantee in support of the Beef Breeder Co-operative Program.
- The Ontario Sheep Marketing Agency should not pursue a co-operative loan program, but might initiate a trial in the one area of Ontario with sufficient sheep and producers to sustain a co-operative.
- A joint beef/sheep breeder loan system could be considered within the existing Beef Breeder Co-operative Program.
- Beef Farmers of Ontario should investigate means to reduce the assurance account deposit levels by securing government funds to underpin the assurance accounts or partially consolidating assurance accounts.
- Both producer organizations should explore additional means of supporting expansion-minded producers through financial planning programs, tools and services.

Approach

Wheeler Group was directed to make the consultation of sheep and beef cow-calf producers a major component when undertaking the project. In preparation for those consultations we conducted a literature review to determine the approaches of industry and government in other jurisdictions when promoting flock and herd expansion, with a focus on their efforts concerning availability of financing.

A review of beef and sheep breeder finance and support programs in other jurisdictions was conducted to determine what has been successful and unsuccessful in those provinces. Program administrators and government officials in those jurisdictions were interviewed to ascertain the key elements of their programs, the role of government guarantees in their program design and delivery and the relative success of their programs in promoting and supporting flock and herd expansion.

A Framework Paper was generated based on the information collected in the project's early stages, including the past policy positions taken by the client OSMA and BFO organizations and the past efforts of those organizations to secure government guaranteed breeder loan programs.

Commercial farm lenders in Ontario were interviewed to determine their interest in financing flock and herd expansion, the requirements producers must meet to secure financing and their views on the existing beef breeder program and the potential sheep finance program. The practice of commercial lenders with respect to other government programs was also explored, most notably the Advanced Payments Program and the Canadian Agricultural Loans Act.

Interviews were held with Ontario government officials responsible for the policy decisions respecting loan guarantees and with various individuals inside and outside government knowledgeable with the beef and sheep breeder sectors. The input of farm loan program administrators in Ontario was also secured.

On the basis of our consultations and reviews a Synopsis Paper was generated to capture the key findings and to inform the subsequent producer consultations.

OSMA and BFO identified knowledgeable and thoughtful producers across the province and solicited their participation in focus group discussions. Participation was by invitation, with the goal to conduct in-depth exploration of producer views. The focus groups were not intended to constitute a survey, representative of Ontario producer opinion. They were designed to capture the views of knowledgeable producers and their expectations as to the broader producer community's perspectives.

Focus group participants were sent a Focus Group Discussion Paper in advance of the consultation sessions held across the province in April. The logistical and design details are captured later in this report. The focus groups elicited views on the barriers and incentives to expansion, the challenges of securing financing for expansion, feedback on the potential sheep program design and beef breeder program guarantee, the expected benefits from the potential program changes and the likelihood of their uptake by producers.

A number of individual producers who were unable to attend the focus groups or who heard of the project and wished to provide input were interviewed by telephone. While their input is not captured in a reportable format, they provided perspectives that were very valuable to the consultant.

On the basis of the focus group input, follow up interviews were held with the commercial lenders, industry leaders and the client organizations.

The concluding components of the project involved an assessment of the findings, the development of a short list of recommendations and the documentation of Options and Alternatives for consideration by the client organizations. Those elements capture suggestions for improving and increasing the uptake of the existing Beef Breeder Co-operative Program and document a number of initiatives that the client organizations could undertake to support producers in financing flock and herd expansion.

Foundations Paper

This paper will provide the context and background for a project being undertaken by the Ontario Sheep Marketing Agency (OSMA) and Beef Farmers of Ontario (BFO). Both organizations believe there is a real opportunity to expand their industries in Ontario and have in support of that objective made requests of the Ontario government for financing programs for beef breeder herd and ewe flock expansion. Wheeler Group has been engaged to assist in assessing the investment environment in the Ontario beef and sheep industries, to evaluate the potential impact of the proposed programs and to determine whether Ontario beef and sheep producers would avail themselves of the benefits of the programs, if offered.

Questions Seeking Answers

Will loan guarantee programs provide the incentive for Ontario sheep and cow-calf producers to expand?

How certain can we be that producers will avail themselves of these financing opportunities?

What other non-financial initiatives might achieve as much or more in terms of expansion incentive or might complement a guarantee loan program?

The Business Case for Herd and Flock Expansion

It is not the purpose of this project to make the business case for herd and flock expansion, but the final reports will address why BFO and OSMA believe their sectors are poised for growth and why expansion is in the province's and the industries' interests.

In short, as is well known and has been documented for decades, Canadian raised lamb supplies less than half of Canadian market demand and Ontario lamb supplies an even smaller portion of the Ontario

market. Supplying a larger share of the market with Ontario lamb is a challenge that OSMA has taken on in response to the Premier's Agri-Food Challenge. OSMA has established a provincial target population of 222,720 ewes by the year 2020 (January 1, 2017: 171,400).

With respect to the Ontario beef industry, the cow herd in the province has for many reasons shrunk by about 33% over the past 12 years. An increased number of calves are brought into the province to supply the feeding and slaughter segments of the industry, so much so that BFO has concerns for the sustainability for the beef industry in Ontario. BFO has invested considerably in efforts to grow the herd in Northern Ontario. It is believed that adding a provincial loan guarantee to the current Ontario Beef Breeder Co-operative Loan Program will support herd growth across the province.

What is it that BFO and OSMA are seeking?

The Potential Ontario Sheep Finance Program

OSMA has been making a concerted effort to help the industry re-establish its market share. The development of an Ontario Sheep Finance Program is one in a series of key initiatives that OSMA is considering to help producers meet the industry targets. The targets were established in 2014 in response to the Premier Wynne's agri-food industry growth challenge.

Ontario's Sheep Industry Targets

	2013	Projection 20120 (20%)	Possible Stretch (30%)
Ewe Flock	185,600	222,720	241,280
Total animals slaughtered	262,700	315,240	341,510
Per capita consumption	0.87	1.04	1.13

The program would be structured and could function much like the Ontario Feeder Cattle Loan Guarantee Program and Ontario Beef Breeder Co-operative Program, and similar sheep financing programs offered in some other Canadian provinces.

A provincial loan guarantee program, Ontario Sheep Finance Program (OSFP), is seen as a risk management tool that could underpin the financial health of the industry during its expansion and ensure that Ontario lamb production is meeting the increased demand from Ontario's consumers. Increasing the supply of Ontario product available will put more lambs through Ontario abattoirs, ensuring that they remain in business, keeping jobs in the processing sector and contributing to a strong Ontario economy. The OSFP will be tailored to target experienced producers who are positioned to efficiently and effectively expand their production. Enabling these producers to finance their breeding females through OSFP would provide the ability to manage cash flow and expand production without having to sell ewe lambs to generate cash flow. In previous submissions to government OSMA has requested:

- \$2 million guarantee
- \$30,000 over two years for promotion

- \$60,000 over three years for administrative costs (project administrator)

The OSFP would provide members the ability to purchase ewe lambs or mature ewes from the program financed by a public-private collaborative/co-operative loan program.

OSFP would complement other programs currently offered to Ontario sheep producers.

The federal Advance Payments Program provides funding to producers at approximately 50% of market value of lambs and sheep. The first \$100,000 is interest free and another \$300,000 can be borrowed at the prime interest rate.

OSFP would offer competitive financing that is easy for producers to access through an approval process that is tailored to the sheep industry.

There is a desire to collaborate with BFO and keep the OSFP consistent with what the beef industry is doing, aimed at encouraging sector expansion to encourage both mentorship, financial management, and stewardship.

Program Specifics:

Eligible Livestock - Ewe lambs and mature ewes which are older than 6 months of age, under 3 years of age and may be pregnant with no greater than their third lamb crop (reasonably capable and likely to produce a minimum of 5 additional lambs.).

Eligibility of Participants

- Not for novice producers
- Geared towards internal expansion.

Program Funding Limit - The maximum cumulative amount of principal outstanding on all loans under the program would not exceed two million dollars.

Maximum per Animal Financing Amount - The maximum financing amount per ewe will be established annually by OSMA and the lender. The maximum financing amount per ewe shall be \$300.

Security Deposit - A Security Deposit of ten (10%) percent of the all-in purchase price shall be paid by the member.

Minimum Loan Amount - No loan shall be less than five thousand dollars.

Maximum Loan Amount - No loan may exceed the lesser of:

- the maximum per animal financing amount multiplied by the number of ewes; or
- 100% of the all-in purchase price of the livestock, with such purchase price validated by a sale invoice and verified by the Association.

Loan Provisions Draw - Each loan will have one draw.

Maximum Term

Loan Payment - The payments will commence on the 1st day of December following the date of the applicable advance date and will be paid annually on the 1st day of December in each year thereafter until paid in full.

- Year 1 - 25% of original principal amount of advance plus interest
- Year 2 - 25% of original principal amount of advance plus interest
- Year 3 - 25% of original principal amount of advance plus interest
- Year 4 - remaining principal amount owing in respect of the advance plus interest.

General - A first charge purchase money security interest, registered at Personal Property Registry in the Province of Ontario and the province in which the member resides and carries on business, over all livestock acquired with program funds during the term of the loan.

Identification - All ewe lambs and mature ewes acquired with program funds and progeny thereof born during the term of the loan must be ear tagged with RFID and program tags.

Insurance - All ewe lambs and mature ewes and progeny thereof must be covered by livestock mortality insurance to a minimum of the original principal amount of the loan, with first loss payable to the program.

Health Portion of Program To protect value of the animals and the associated credit, the health of the animals represented by the load, the farm's health plan and biosecurity arrangements must be reviewed at purchase and potentially annually as prescribed by the program, OSMA or Lender. It will be an individualized (flock) plan that accommodates the commercial realities of the member and the program.

Flock Health Requirements - Consist of characterization of abortion events, continuous improvement of health status, and a limitation on the number of source flocks.

- Education package with application for financing (producer manual)
- A SRVO vet must evaluate according to a check-list potential health problems (linkage to Ontario Sheep Flock Health Program)
- Notification when animals are dead (inventory).
- Characterization of abortion events in both the source flock(s) and during the load periods
- The program may require a flock health declaration on bill of sale
- The program reserves the right to limit the number of source flocks

Administration - Three options are possible for program administration.

- A single provincial co-operative run through OSMA
- Regional co-operatives run through OSMA (like Beef Feeder and Breeder Finance Programs)
- Existing Ontario Beef Breeder Co-operative Loan Program co-operatives. Given that this infrastructure is established and successful, with low default records, folding the OSFP into the beef co-operatives would be, in OSMA's view the best use of resources.

Note: This is an abbreviated version of the draft program details, as drafted in 2014.

The Proposed Beef Breeder Co-operative Program Guarantee:

Based on the success of the Ontario Feeder Cattle Loan Guarantee Program, BFO introduced the Ontario Beef Breeder Co-operative Program in 2002. Since that time BFO has been seeking to support the program with a government loan guarantee, with the desire to achieve lower interest rates on loans to cow-calf producers and to potentially lower borrower deposits in the associated contingency funds.

Expansion of the Industry in Ontario

A critical point of emphasis for our board has been to set conditions to allow the industry to expand in Ontario. This is extremely important as the current level of production threatens the infrastructure that we have and need for a successful beef industry in Ontario.

Those two expansion initiatives will secure our industry in the future as well as help our processing friends and the whole economy of Ontario.

The proposed centralized lending approach would have also provided much needed funds of breeder loans that could help expansion. I firmly believe that without the centralized lending model, there will be no fast solution to a breeder loan program.

Bob Gordanier, BFO President, 2016 Annual Report.

More than three years ago, during their strategic planning process, BFO's Board identified that a shrinking cow herd and decreasing supply of locally-produced beef in the province was one of the issues that needed to be addressed. The Board recognized that this decline poses a direct threat to the survival of processing plants in the province and to the sustainability of Ontario beef farming.

Dave Stewart, BFO Executive Director, BFO 2016 Annual Report

Because the current Beef Breeder Co-operative Program operates independent of government, the borrowing capability of the regional co-operatives is limited to the point where the co-operatives cannot satisfy the borrowing desires of current members or other cow-calf producers wishing to join the co-operatives. Also, there are areas of the province not served by a co-operative and hence cow-calf producers in those parts of Ontario do not have access to the loan program. A government loan guarantee would not solve all to the issues of access to loans in those instances, so BFO has proposed more centralized coordination of the breeder loan program and the offering of loans on a provincial

basis in order to make the loans available across all regions of the province. This validation project is intended to provide the justification for the Ontario government to implement the loan guarantee.

Resolution carried at the Beef Farmers of Ontario Annual Meeting, February 2016.

WHEREAS, the Premier's Agri-Food Growth Commitment challenged industry to grow, expand, and create new jobs in agriculture by 2020, and

WHEREAS, the Breeder Loan Program is an important component of growing the cow herd in Ontario, and

WHEREAS, the program has limited coverage leaving many producers across the province without access to these loans, and

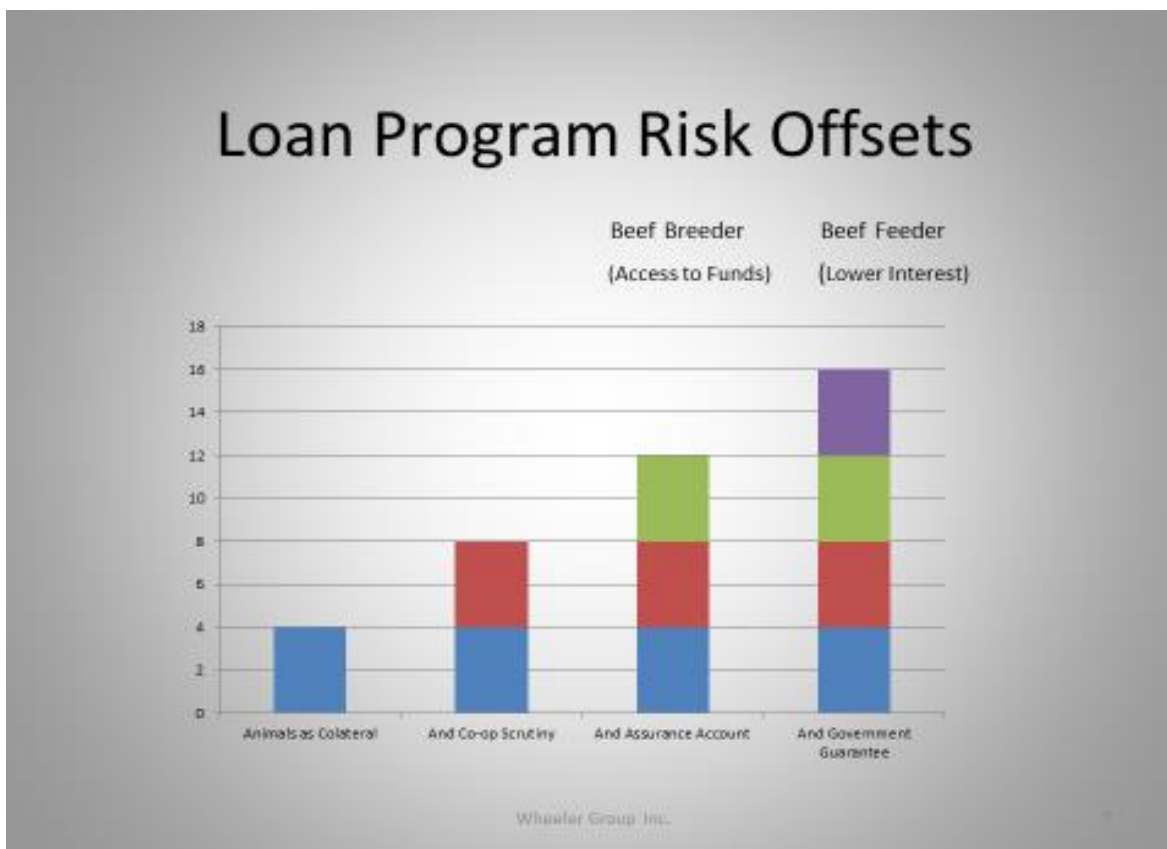
WHEREAS, the Breeder Loan Program does not enjoy the same luxury of a government backed guarantee as the Feeder Loan Program does, which limits the program's competitive structure,

THEREFORE BE IT RESOLVED THAT BFO lobby the provincial government for a government backed guarantee of the Breeder Loan Program in order to improve the financing terms for cow-calf operations, to expand the program to the underserved areas of the province, and to meet the Premier's Growth Challenge.

ONTARIO BEEF BREEDER

Co-op	Year	Month	# of mem bers	Members with loans	# of new mem bers last 6 months	Number of loans	Number of head purchased	Total cow inv.	ave # of cows	Total Principal Outstanding	Purchase Orders	Total Committed	MILLION	# overdue loans	# using Assurance Account	Ave Value per cow on Inv.	% under age	AVE LOAN/ACTIVE MEMBER
2006	June	Dec	260	203	23	300	1,144	5,730	28	4,235,843	64,734	4,300,577	4.30	5	4	\$739		\$20,866
		June	248	212	30	318	785	5,939	28	3,989,448	218,341	4,187,789	4.19	11	0	\$668		\$18,724
2007	June	Dec	253	207	39	336	979	6,741	33	4,387,457	17,250	4,404,707	4.40	10	0	\$651		\$21,195
		June	250	199	15	350	601	5,868	29	4,124,118	74,328	4,198,446	4.20	16	3	\$703		\$20,724
2008	June	Dec	263	223	22	378	864	6,477	29	4,508,669	3,118	4,511,787	4.51	20	2	\$696		\$20,218
		June	253	223	18	368	796	6,439	29	4,218,743	72,344	4,291,087	4.29	25	3	\$655		\$18,918
2009	June	Dec	276	223	26	373	887	6,570	29	4,615,513	41,000	4,656,513	4.66	12	4	\$703		\$20,697
		June	218	192	20	296	871	5,618	29	3,712,307	25,709	3,738,016	3.74	19	2	\$661		\$19,335
2010	June	Dec	260	231	11	393	627	6,728	29	4,556,948	30,000	4,586,948	4.59	18	4	\$677		\$19,727
		June	263	231	17	397	866	6,190	27	3,949,353	130,382	4,079,735	4.08	14	3	\$638		\$17,097
2011	June	Dec	263	232	23	415	837	6,846	30	4,909,087	0	4,909,087	4.91	8	2	\$717		\$21,160
		June	265	228	19	409	1,039	7,372	32	4,646,802	65,486	4,712,288	4.71	22	3	\$630		\$20,381
2012	June	Dec	279	238	24	443	912	7,930	33	5,607,025	16,163	5,623,188	5.62	3	1	\$707		\$23,559
		June	271	233	12	405	890	6,677	29	5,147,032	128,000	5,275,032	5.28	28	1	\$771		\$22,090
2013	June	Dec	280	239	22	442	907	7,564	32	5,953,903	86,744	6,040,647	6.04	6	4	\$787		\$24,912
		Dec	280	241	24	408	654	7,159	30	5,094,587	150,000	5,244,587	5.24	9	1	\$712		\$21,139
2014	June	Dec	298	259	35	477	1,265	7,874	30	\$6,826,199	\$274,180	\$7,100,379	7.10	4	1	\$867		\$26,356
		Dec	309	289	27	501	1,178	6,915	27	\$7,132,925	\$434,697	\$7,567,622	7.57	13	1	\$1,032		\$27,540
2015	June	Dec	334	308	33	533	1,152	7,950	26	\$9,113,966	\$462,070	\$9,576,036	9.58			\$1,146		\$29,591
		Dec	369	318	37	606	1,353	8,177	26	\$10,884,928	\$772,082	\$11,457,020	11.46			\$1,307		\$33,600
2016	June	Dec	346	317	36	672	1,300	9,089	29	\$12,896,218	\$48,981	\$12,945,199	12.95	3	0	\$1,422		\$40,682
		Dec	371	334	25	674	1,144	9,343	28	11,630,046	247,934	11,877,980		11	4	\$1,245		\$34,820
Total			5,350	538	40	21,041								257	43			\$32,708

Ave **\$32,708**



Note: Disregard scale on left axis. This chart shows how measures reduce lender risk, enhance access to financing and reduce interest rates.

How a Co-operative Loan Program Mitigates Risk

When lenders and borrowers enter into a borrowing agreement the terms and conditions are impacted by the degree of risk the lender is willing to accept and the measures that can be employed to reduce or offset the likelihood of a lender loss.

Animals as Collateral: Live animals are generally considered as low value security and of limited benefit in offsetting lender risk. Within a co-operative loan program, with co-operative inspection and oversight, a legally binding interest in the livestock bears more weight.

Co-operative Scrutiny: Co-operative judgement in terms of who is allowed into the co-op and the limit on how much each producer can be advanced through the program provides more lender confidence.

Assurance Account: When borrowers are required to deposit a portion of their loan into a joint assurance account funded by all borrowers, the risk of moral default is greatly reduced and lenders are assured of payment from the account in most instances of default.

Government Guarantee: When a government guarantee supports the co-operative's lending to producers, risk on the part of the commercial lender approaches zero.

The Situation Elsewhere?

Their Issues: It can seem remarkable and at the same time be completely rational that major sheep and beef producing jurisdictions have experienced similar sector declines in recent years. The UK, New Zealand and the United States have all had significant declines in sheep numbers in the past decade. Australia was the exception, with a record flock size in 2014, but then their industry is much less focused on meat production, and more dependent on wool revenues. The beef industry in many jurisdictions has suffered herd declines similar to those in Canada and Ontario, and in most cases for the same reasons related to more profitable competing land uses.

Their Approaches: Around the world, livestock sectors, their organizations and governments are good at describing shifts in livestock production numbers and the health of the industry, and in citing the reasons behind those changes. Many times the response is limited to one-off initiatives, restricted in scope and hence in success. In a few other instances industry and government-industry coalitions have developed comprehensive strategies for addressing the challenges impeding their beef and sheep sectors. An example is the Beef and Lamb New Zealand Limited and Meat Industry Association of New Zealand, Red Meat Sector Strategy Report, March 2011. Another is the Agriculture and Horticulture Development Board (UK), Beef and Lamb Business Plan 2016-2019. A third is the American Lamb Industry's Roadmap Project. The main objectives of those strategies are improved production efficiencies, increased focus on satisfying consumer meat preferences and maximization of total industry returns by enhancing value chain co-operation. Interestingly enough, the strategies of other jurisdictions involve very little in terms of seeking government assistance other than research and production extension.

Their Programs: Wheeler Group has undertaken a thorough review of financing programs that target the retention, expansion and development of beef and sheep production in Canada, the United States and some other major livestock producing countries. A program elements table was developed to capture information such as the program objectives, eligibility, funding criteria, program performance and other details¹. Almost 40 programs were identified. A Canadian breeder finance program subset of those 40 programs is also provided². Data was obtained from 45 references and websites, as well as email and phone contacts.

The United States Department of Agriculture's Farm Service Agency provides loans and loan guarantees to farmers and ranchers needing operating and other financing they are not able to otherwise obtain. Loans are interest bearing and are not exclusive to beef or sheep. Other U.S. programming is primarily focused on industry product marketing or development of the sector, and not aimed at providing capital to individual producers.

Programming in New Zealand and Australia seems very limited. New Zealand does have some technology initiatives to incent small groups of producers to try new practices on farm to solve beef and sheep production issues.

¹ Appendix 1, Beef Herd - Sheep Flock Expansion, Development and Financing Programs, February 2017

² Appendix 2, Canadian Beef and Sheep Breeder Loan Programs, April 2017

Scottish producers (and others in the European Union) receive significant grant payments based on their number of cattle and sheep. These payments can vary depending on where the animals are produced, as the primary objective is countryside enhancement.

The Canadian Approach:

Two major, national programs in Canada provide support for both beef and sheep production financing across the country. Agriculture and Agri-Food Canada's Advance Payments Program (APP), which is delivered through local/provincial producer and other agricultural credit organizations, provides operating funding for producing both crops and livestock. The APP advance loans (first \$100,000 is interest free) are paid back as the products are marketed. In Ontario, the 2016 APP supported 464 beef feeder advances for \$40.9M and 17 sheep advances for \$0.65M. The province with the greatest number of beef advances was Saskatchewan (514 advances for \$35.66M) and that with the most sheep advances was Quebec (66 advances for \$2.01M). The Farm Credit Corporation (FCC) provides operating and longer term financing to livestock producers to help them manage and expand their operations. These are all interest bearing loan products similar to services provided by other financial institutions.

As expected, given the importance of the livestock sector to Western Canada, programs supporting livestock are somewhat stronger in the western provinces and have been in existence for longer periods. These programs generally have more active participation because of the larger numbers of producers and historical presence. As you go from west to east there are fewer provincial programs specifically targeting the financing of beef and sheep production.

The Feeder Associations of Alberta Loan Guarantee Program is the largest program of its type in Canada. The program began in 1936 and is still very active today providing well over \$400M to support production of 300,000 head of beef feeders and 23,000 lambs. Ontario also has an active feeder program providing over \$150M to support production of over 85,000 head of cattle (sheep are not eligible). The other western provinces also offer loan guarantee programs for beef feeders but financing for lamb production is only provided in Alberta and Manitoba. Saskatchewan had supported lamb production but that ended in 2013, as there was no longer a producer association to deliver the program. The feeder cattle co-operatives delivering support in Quebec faced a challenge to the legality of their delivery of the program in 2012, ending much of their activity. New Brunswick provides feeder financing but the program is almost inactive. No programs are available in the other eastern provinces.

Beef breeder or bred heifer loan guaranteed programs are available in BC, Saskatchewan and Manitoba. These programs have been in place for many years, have some level of provincial government guarantee and are often delivered by the same producer associations that administer feeder loans. Defaults are reported at well below one percent.

In Alberta they offer a breeder loan program without a government guarantee.

Ontario has 8 beef breeder co-operatives that help producers access capital to purchase breeding stock. However, since the loans to the co-operatives are not guaranteed by the government, and backstopped

only by producer assurance funds, the interest rates are higher than for feeder loans. Further, sheep are not eligible for the Ontario breeder loans.

Alberta has led the way in developing new programming tools to support livestock production. In 2009 Alberta initiated a Western Livestock Price Insurance Program (WLPIP) which was subsequently adopted by all 4 western provinces as part of their AgriRisk Initiatives under the 2013-2018 Growing Forward 2 federal-provincial-territorial programming. Producers select options and pay premiums for the program, which made payments of over \$20M to Alberta beef producers in 2016-17. WLPIP is only available to cattle and hog producers.

The Ontario government has taken a different but somewhat similar approach to the WLPIP in terms of affording Ontario livestock and crop producers revenue protection. The Ontario Risk Management Program is a fee based vehicle through which producers can enroll to receive market support payments when livestock market prices fall below targets based on production costs.

Some provinces have also developed Growing Forward Programming targeted at improving both beef and sheep genetics, handling facilities, herd health and other aspects of beef and sheep production. The Maritime Provinces, in particular, employ these types of grant programs.

Later in this paper the Ontario participation rates of various programs are provided.

Program Evaluation.

There is a finding of particular relevance to the mandate of this project. While the programs in other jurisdictions are supportive of livestock producers, and the numbers of participants demonstrates that producers see some value in their participation, nowhere in the literature review or explorations with program administrators did we uncover efforts to measure the impact of the programs. There is no documented proof that breeder loan programs actually stimulated more livestock production.

The Expansion Investment Decision

It is a serious undertaking for a farmer or farm family to make the decision to undertake a considerable expansion in their operation. It will be critical when assessing the role that preferential borrowing can play in that decision making to understand the factors that impact the expansion decision. What dominates the thinking of sheep and beef producers when faced with that question?

Some factors

- Availability of financing - for capital improvements and land
- for operating
- Land availability
- Buildings and machinery/equipment
- Labour availability
- Management capacity
- Family/Succession issues. Now and future
- Impact on off-farm income. Will expansion require forgoing off farm employment?
- Other opportunities - cropping, other farming, non-farming investment
- Impact on lifestyle. What are my objectives?
- Profitability. Will my expansion pay?
- Will I be able to predict prices with any certainty?

Ontario Beef Farmer Survey

In fall, 2015, BFO conducted six regional consultation workshops of beef producers to explore the potential for expansion of the beef cow herd in southern Ontario. The factors listed above and many more were raised. When asked for a word or two that came to mind when they hear "the expansion of the beef cow herd in southern Ontario", the top two were "opportunity" and "profitability".

When the workshops concluded, three of the top six Suggested Key Areas of Focus related to farm financing: 1.Ensure strong financing is available, 4.Financially support infrastructure, and 6.Engage government to support herd expansion.

One fundamental challenge for the focus groups in this project is to determine how significant loan guarantee programs are or could be in helping a producer pull the trigger on an expansion plan.

The Labour Challenge

The Canadian Agriculture Human Resource Council has conducted an extensive review of current and projected labour needs in Canadian agriculture, by province and by sector. The study found that: "In 2014, the sheep and goat industry had the highest proportion of unfilled jobs compared to other agricultural industries. This labour shortfall affected sales and potential growth." Labour, in this study, included operator/owner labour. And there was no breakdown available between dairy and meat sheep or goats.

When specifically asked about the impact of labour shortages on expansion, 23.8% of the sheep and goat producers surveyed indicated that expansion has been delayed because of labour availability concerns. That compares to 15.5% across all of agriculture.

An Economic Forecast of Sector Profitability

For start-up operations, lifestyle, love for livestock farming, supplementing off-farm earnings, pride in land ownership and other non-business factors come into play. But once an operation is established, those desires have been satisfied. Surely the major consideration when thinking of expansion must be, "Will the extra effort and risk be worth it? How much money will this generate?"

While that is a very difficult question to answer with certainty, one can draw on experience, both personal and for the sector. One can forecast efficiencies of scale, reduced per unit labour requirements, etc. But the major question remains.

Another source of information on future prospects can be sought from an economic assessment and projection. One of the Wheeler Group team for this project has built a career on doing just that. Kevin Grier's conclusion, "In summary, the overall market conditions point to stability at best in terms of pricing, costing and overall demand. Ontario cattle and sheep producers will not be able to look to market drivers as a source of growth or contraction. The market will be relatively neutral as a factor for growth." The full projection is provided in Appendix 3.

Currently Available Government Support and Participation Rates

A critical question to be answered by this project is, "If a loan guarantee program is introduced, will Ontario sheep and beef producers pick up on it?"

One may be able to draw inferences if not conclusions to that question by looking at other existing opportunities for Ontario sheep and beef producers to access risk management coverage or financial support payments. Their participation in those existing programs may provide an idea of whether they would seek funding from a loan guarantee program.

Ontario Risk Management Program

Not broken out by livestock sector. OTHER SOURCES WILL BE CHECKED

Advance Payments Program

Beef feeder loans:	2015: 533 loans for \$47.82M
	2016: 464 loans for \$40.89M
Sheep loans:	2015: 23 loans for \$0.98M
	2016: 17 loans for \$0.65M

(2016 Quebec sheep APP: 66 loans totalling \$2,012,000)

Ontario Beef Feeder and Breeder Loan History

Ontario Beef Breeder Co-operative Loan Program

8 co-operatives; December 31 data

	Active Members	Cow Inventory	Principal Outstanding
2011	232	6,846	\$4.91M
2012	238	7,930	\$5.61M
2013	239	7,564	\$5.95M
2014	259	7,874	\$6.83M
2015	308	7,950	\$9.11M
2016	317	9,069	\$12.90M

Ontario Feeder Cattle Loan Guarantee Program

2016: 17 co-operatives and 838 active members

	Cattle Purchased	Loans Advanced
2012	86,985	\$89.0M
2013	97,448	\$100.5M
2014	95,713	\$141.3M
2015	85,107	\$155.9M
2016	91,631	\$126.8M

Sheep Finance and Beef Cow-Calf Finance Program Validation Synopsis Report

The early findings of the project exploration are provided in this Synopsis Report to set the stage for the focus groups. The discussion paper composed to inform the focus groups captures much of the Synopsis Report as well as other considerations.

Wheeler Group Investigations have involved literature and other jurisdictions reviews, as well as discussions with agricultural lenders and others in the Ontario agricultural industry and within the Ontario beef and sheep industries. Government representatives have also been interviewed.

This document is not meant to capture all of the findings to date, nor all of the considerations that will guide the following components of the project. Future validation of the data and information collected at this point will enrich the reporting done in later stages of the project.

Tables documenting the structure and operation of beef and sheep financial support programs are contained provide a comprehensive picture of what governments and the beef and sheep sectors provide in other jurisdictions. Those charts are provided as separate documents.

Perspectives of Beef and Sheep Feeder and Breeder Program Administrators in Other Provinces

This summary of administrator views is best read in concert with the chart detailing programs in other jurisdictions.

Lindy Gilson, Administrator of the BC Breeder Associations loan guarantee program for beef breeders noted that their provincial government supported program had been growing and was without a doubt helping production to expand by providing producers with access to millions of dollars. The BC program is delivered through 5 Breeder Associations and has grown from supporting 5,700 head of beef breeding stock in 2008 to over 16,000 head in 2016. Beef production has been increasing in BC in recent years.

Dale F. Engstrom a private professional agrolgist working with Alberta's livestock industry provided some insight into the Alberta Breeder Finance Inc. While the Feeder Associations of Alberta (FAA) have been operating a loan guarantee program for feeders for over 80 years no program was available for breeders. To address this, the FAA supported the formation of Alberta Breeder Finance Inc. (ABFI) in 2013 outside of the provincial legislation and guarantee

for feeders. ABFI was able to obtain financial backing from ATB Financial and began delivering a loan guarantee for breeders. Dale estimates that without the provincial guarantee it is costing ½% more for interest on the guaranteed loans, however, not being hindered by government legislation has been a welcomed benefit. The ABFI guarantee is delivered centrally but with the support of the regional feeder associations for some of the administration process. Dale felt that given its history of only 3 years it is probably too young to determine direct benefits other than the fact that participation has grown and the clientele are typically those who would have some difficulty in obtaining the same amount of funding from other sources.

Dace Cochlan, Provincial Supervisor, Feeder Associations, Alberta Agriculture provided insight into their loan guarantee program for beef feeders and lambs which began in 1936. The program is delivered by 46 Feeder Associations and has seen a significant increase in the participation of lamb producers in the past 5 years. The guarantee supported 1,772 lambs in 2011/12 and 22,939 in 2015/16. Dace felt that the increase was a result of good money in feeding lambs in recent years and that several feeder members are now feeding lambs on a much larger scale. Most of the Feeder Associations pay prime plus ¼% for their loans and Dace felt this rate would increase to as much as prime plus 4% if there was no provincially supported guarantee. (The Province provides a guarantee of 15% on feeder loans).

Gordon Schroeder, the Executive Director of the Saskatchewan Sheep Development Board provided background on their experience with a loan guarantee program for sheep. Unfortunately, the program failed in Saskatchewan after several years of operation. The program was delivered by a single sheep co-operative and the costs of administration were onerous given the distances to travel to inspect flocks across the province. The advice given from this experience was to deliver this type of program regionally to reduce administrative costs and improve overall performance. Schroeder also noted that production of lamb did not decline following the loss of the guarantee program as demand for lamb was continuing to increase.

Schroeder noted that while access to capital was a barrier to sheep flock growth, there were other barriers that also needed to be addressed. These included lamb mortality, herd health (working with a veterinarian), nutrition, bio-security, dead stock management, record keeping and business development. He noted that flock managers needed good opportunities for training in all these areas and that Growing Forward funding was being used to address areas such as bio-security. It was also noted that producing the right breeds to satisfy market demands was critical to success and that producers and processors need to work together to establish stable pricing for lamb to encourage more production.

Gordon also noted that programs influencing livestock inventories (supporting expansion) were not favoured by the province as they were seen as excessive subsidies. This was based on some unfortunate experiences the province had with attempts to expand the hog and potato sectors. For the sheep industry, Schroeder felt that expansion through retention of ewes was an acceptable approach.

Nicole Krips, Provincial Supervisor, Livestock Loan Guarantee Program in Saskatchewan, noted that losses to their beef breeder and feeder programs were well below 1% and that these losses were primarily due to fraudulent activity. The Saskatchewan feeder guarantee began in 1984 and breeders were added in 1991. Sheep and Bison were added in 1999, however, the co-operative delivering the sheep guarantee failed in 2013/14. Nicole also noted that producers were using both the Advance Payments Program and the new Western Livestock Price Insurance Program.

Kendra Bouw with the Prairie Gold Breeder Co-operative noted that the Co-operative had begun to offer beef breeder loan guarantees only recently since the only Co-operative delivering a breeder guarantee in Manitoba had recently reached its lending limit of \$8 M. This limit is set by the Manitoba Agricultural Services Corporation, which delivers the guarantee on behalf of the Province. Kendra noted that uptake had been good and is expected to increase over the next several years.

Availability of Financing

There is no one answer to the question of how difficult it is for a producer to access expansion financing. A number of lenders have been interviewed for this project. Their views on the availability of funding for sheep flock and beef cow-calf herd expansion are remarkably consistent.

- Banking institutions readily lend to sheep and beef farmers and are interested in expanding their portfolios.
- Lending has become much more flexible over the years, accommodating both capital and operating loans, with integration of the current account and the Advance Payments Program to maximize benefits from the interest free \$100,000 available from the federal government.
- A borrower must produce a viable business plan, but lenders are able to help some.
- Most farm clients own farmland and in most cases that land is only partly committed as collateral for existing borrowing, providing sufficient capacity to finance a herd or flock expansion.
- Producers with low equity levels will certainly be limited in terms of total financing available.
- A guaranteed loan program does not necessarily deliver a lower interest cost. It will for those most needing the loan program financing. Other high equity operations will already be obtaining funds at or below the program loan rate.

- An expansion financing plan can follow the hog industry depop-repop approach to reduced cash flow resulting from ewe lamb and heifer retention. Lenders are very adept at multi-year financing with fluctuating revenue levels.
- Caution: When generating a financing plan, livestock producers often account for temporarily reduced revenue and the investment costs for animals and buildings, etc., but fail to anticipate the significant carrying (feeding, etc.) costs of the expansion animals until revenue levels increase.
- Where there is a guarantee program, lenders are often willing to defer any repayments for 3-5 years as the business and revenue grow.
- Where a farmer does not wish to pledge land as collateral, operating loans are still available but there is more administration (more frequent reporting, etc.) and those loans incur higher interest rates.

Some related and other questions posed to those interviewed:

- Is financing really the main impediment to expansion? Or is it a simple excuse why producers are not investing in a low margin, low profitability business?
- Do loan programs provide funds that could be readily available if producers were more willing to pledge land as collateral?
- When a loan program is in place, does it in some cases provide an alternative to one high equity generation backing the next?
- Is loan program borrowing more attractive because banker discussions can be avoided? Less stringent business plans may be required?
- How significant is the interest savings available from government guaranteed loan programs? A saving of 2% on a loan of \$50,000 amounts to \$1,000 per year, which is less than the interest savings which are available and generally not accessed under the Advance Payments Program (up to %\$100,000 interest free).
- Do livestock organizations lobby for guaranteed loan programs to demonstrate their organization's value to members?
- Can a single county/regional resolution to the annual meeting drive an industry request for a financing program?
- Are government guarantees for loan programs sought, as a demonstration of the government's commitment to the industry? A validation of the industry?
- Will the program really incent expansion or will it just substitute government guaranteed funds in place of normal commercially available financing, thereby merely providing some farmers with reduced interest costs and providing lenders with lower risk levels?

Beef and Sheep Breeder Loan Programs

Producer Focus Group Summary

An integral component of the project is the collection of Ontario beef cow-calf and sheep producer views about their industries, what holds back expansion, how availability of financing impacts actual expansion, the merits and challenges associated with the proposed programs and expectations regarding producer uptake of the proposed programs if made available.

Bryan Boyle conducted producer focus groups to solicit producer input during the second half of April. Jim Wheeler attended at and assisted with seven of the sessions. A sheep and a beef focus group was held in each of Kemptville, Brantford, Peterborough and Walkerton. Participants were selected by OSMA and BFO Board directors and staff with the aim of attracting 8-12 well-informed, thoughtful and articulate participants for each session.

OSMA and BFO invited a list of potential participants for each focus group, confirmed their attendance and forward materials for review prior to the sessions. A discussion paper, history of the Ontario Beef Breeder Co-operative Program, and a brief statement of the objectives of the proposed improvements to the program were sent to beef producers who had accepted the invitation. Those who accepted invites to the sheep sessions received the discussion paper and a description of the potential sheep breeder finance program. The meetings were structured to evoke opinion and input. The agendas and pre-reading materials are attached.

Each of the eight focus groups was populated with producers who were very willing to share their views and knowledge.

Beef Focus Groups:

Kemptville	April 18	9 participants
Brantford	April 21	7 participants
Peterborough	April 25	6 participants
Walkerton	April 27	8 participants

Sheep Focus Groups:

Kemptville	April 19	6 participants
Brantford	April 24	11 participants
Peterborough	April 26	8 participants
Walkerton	April 28	13 participants

Focus Group Feedback, Observations and Considerations

A detailed report was prepared for each of the eight focus groups. Summary reports for each of the four beef and four sheep focus groups were also generated. While the input from producers is easily garnered from a reading of the reports, there are some findings and conclusions that warrant additional comment. And in some instances additional insight can be provided, with the benefit of attendance at the sessions and capture of the "flavour" of the discussion.

Beef Focus Group Outcomes

Bryan Boyle & Associates Beef Focus Group Executive Summary

The participants' perspectives about the status of financing options for beef cow-calf herd expansion covered a broad range and displayed a neutral average.

Participants identified and prioritized what motivates beef cow-calf producers to expand their herds. From highest to lowest priority, these motivators include profitability, availability of resources, people factors, sustainability and economies of scale.

Participants also identified and prioritized the barriers or limiting factors for beef cow-calf producers to expand their herds. From highest to lowest priority, these barriers were lack of profitability, availability of resources, people factors, and external forces as well as availability of financing.

Merits as well as challenges that exist for the current Ontario Beef Breeder Co-operative Program were also identified by participants. Prioritized merits or strengths include favourable terms and conditions, peer to peer interaction, ease of access as well as potential for growth and development.

Participants readily identified weaknesses or challenges for the current Ontario Beef Breeder Co-operative Program which include governance and structure, assurance account, geographic gaps in Co-op coverage, overhead and administration, terms and conditions as well as a lack of the government guarantee.

The participants suggested many actions that could help strengthen financing options for beef cow-calf producers (including the Ontario Beef Breeder Co-operative Program) to ensure that there are strong and viable financing options for beef cow-calf herd expansion.

Highlights of the areas of focus listed from their highest to lowest priority are:

- 1st: Modify Terms and Conditions
- 2nd: Create Greater Producer Awareness
- 3rd: Engage Key Stakeholders
- 4th: Improve the Structure of Co-ops
- 5th: Encourage Related Improvements

On ballots numbered from 1 to 30, participants chose a number that they felt most accurately describes producers' view of a loan guarantee program as an incentive to expand their herds. They each offered factors which pushed the number they chose up or down the scale. Their average assessment of producer views was 16.0.

Participants were asked, "What percentage of beef producers *who were planning on a herd expansion* would utilize a loan guarantee program?" They each offered a percentage which averaged at 55.83% and shared their rationale for choosing that percentage.

Beef Focus Group Observations and Considerations

Availability of financing is not a significant concern for beef producers (a distant 5 out of 5 in challenges to expansion). This result mirrors a principal finding of a series of Southern Ontario beef producer workshops in fall, 2015. Those workshops were held to determine the potential for beef herd expansion. The top barriers identified in 2015 were support and engagement, attitudes, production, producer demographics, government involvement, political and bureaucratic implications, societal trends, production and marketing issues and resource issues. Notwithstanding that access to financing was not a concern identified in the 2015 workshops, their number one Suggested Key Area of Focus was "Ensure Strong Financing is Available".

Further examination of this disparity will follow in later segments of the project as it is fundamental to the objectives of this initiative.

Beef farmers wish to see improvements in the terms and conditions of their existing Beef Breeder Co-operative Program.

Based on this series of focus groups, adding a government guarantee to the Beef Breeder Co-operative Program would have limited impact in terms of incenting expansion and uptake by producers. A reduction in the percentage of the loan required as a deposit in the assurance account would make the current program more attractive and that reduced deposit could be expected if a guarantee was in place. Adding a guarantee would not on its own resolve the geographic limitations in program availability (lack of co-ops).

Sheep Focus Group Outcomes

Bryan Boyle & Associates Sheep Focus Group Executive Summary

The participants' perspectives about the status of financing options for sheep flock expansion covered a broad range and displayed a slightly negative average.

Participants identified and prioritized what motivates sheep producers to expand their flocks. From highest to lowest priority, these motivators include financial viability, market potential, efficient use of resources, succession planning, personal satisfaction as well as economies of scale.

Participants also identified and prioritized the barriers or limiting factors for sheep producers to expand their flocks. From highest to lowest priority, these barriers are financial limitations, availability of land and infrastructure, production issues, human resources and external forces.

Merits that exist for the current financial options for producers to expand their flocks were also identified by participants. Prioritized merits or strengths include favourable interest rates, terms and conditions, stakeholder engagement, external support as well as lenders show interest.

Participants readily identified weaknesses or challenges for the current financial options for producers to expand their flocks, which include financial risks, meeting lenders' requirements, stakeholder engagement as well as market and entry risks.

The participants suggested many actions that could help strengthen financing options for sheep flock expansion. Highlights of the areas of focus listed from their highest to lowest priority are:

- 1st: Ensure Favourable Terms and Conditions
- 2nd: Engage Key Stakeholders
- 3rd: Establish New Financial Initiatives
- 4th: Improve Production Efficiencies
- 5th: Target Expanding Markets

On ballots numbered from 1 to 30, participants chose a number that they felt most accurately describes producers' view of a loan guarantee program as an incentive to expand their flocks. They each offered factors which pushed the number they chose up or down the scale. Their average assessment of producer views was 19.25.

Participants were asked, “What percentage of sheep producers *who were planning on a flock expansion* would utilize a loan guarantee program?” They each offered a percentage which averaged 52.16% and they shared their rationale for choosing that percentage.

Sheep Focus Group Observations and Considerations

Sheep producers told us that there are many barriers to expansion, including the availability of financing. Profitability, land and other resource availability, production issues and human resource support were all significant barriers. While the responses grouped as Financial Limitations were collectively rated the number one barrier by participants, several disparate factors were captured under that grouping. The concerns relating to access to financing were no more significant than the responses concerning profitability and sheep farming risks.

The participants appreciate that their sheep farm businesses are subject to many risks (disease, predators, and markets) and hence lenders may be apprehensive about dealing with them.

Also, participants felt few lenders understand sheep farming and how to assess success in sheep farming.

They believed that a government guaranteed loan program would be a meaningful incentive to expansion.

Views were varied in terms of whether producers would access a fully fleshed out government guaranteed loan program.

Assessment, Options and Alternatives

It is possible to draw conclusions and make recommendations, having conducted:

- a literature review and a review of financial programs that support beef and sheep producers in other jurisdictions,
- interviews with numerous producers, industry partners, lenders and financial planners,
- and producer focus groups.

A summary of key findings, observations and assessment will be followed by;

- Options that exist for modifications to the current beef program,
- Alternatives to seeking a government guarantee for the Beef Breeder Co-operative Programs, and
- Alternatives that the Ontario Sheep Marketing Agency might pursue in lieu of a Sheep Finance Program.

Assessment

Beef Breeder Co-operative Programs Government Guarantee

Notwithstanding that the industry and Beef Farmers of Ontario consider their current breeder finance program to be a success, it is hard to conclude that it makes a significant difference in terms of herd establishment or expansion. Less than one percent of the Ontario beef cow herd is financed under the program each year and less than three percent of the cows in the herd are financed by the program. That is not meant to diminish the access to financing that the program provides to those who elect to participate. In some instances those producers would not have been able to obtain financing elsewhere. It is also noteworthy that 38 percent of the loans under the program are made to producers under the age of 40.

Further, some if not most of the larger producers do not use the program as they have sufficient capital to expand and do not want to be bothered with the administration for a small number of head.

The program delivers benefits to a very small share of Ontario beef producers.

In terms of the oft cited benefit of reduced interest costs under the Co-operative Program (prime plus 1/2% to prime plus 1%), those modest savings are more than offset by program administration and other fees that total on average \$560 or approximately 1.9% of the loan, much higher than the \$150 FCC fee (0.4% of loan).

How would a government guarantee enhance the benefits to producers? Based on the experience with the Ontario Feeder Cattle Loan Guarantee Program, Beef Breeder Co-operative Program interest rates might be reduced from the current prime plus one-half to prime plus one percent to the Feeder Program rate of prime minus one-half a percent. An interest savings of one percent on the total Breeder Co-operative Program loan portfolio would amount to a modest \$130,000.

A further benefit that might be expected from the application of a government guarantee to the Co-operative Program would be a reduction in the amount that borrowers must deposit in the respective co-operative assurance fund. The current 15% deposit requirement effectively reduces the funding available to a borrower to 85% of the loan amount, which increases the interest cost on the loan funds actually available to the producer. Focus group participants and other producers interviewed most often cited the 15% assurance account deposit requirement as a significant disincentive for program utilization. (Feeder Cattle Loan Guarantee Program borrowers are required to deposit five percent in an assurance account)

In terms of addressing the geographic limitations of the current Co-operative Program (35% of the Ontario herd is located in counties and districts where a co-operative is not operational) the provision of a government guarantee would not directly address that issue. The likelihood that a guarantee would stimulate the establishment of additional co-operatives is uncertain, but also unlikely.

Recommendation: BFO should not seek a government guarantee for the Beef Breeder Co-operative Program.

Rationale: A government guarantee would provide limited benefits beyond those already provided by the existing program.

BFO resources could be more productively applied to other priorities.

The efforts of BFO to effect other programs and services that benefit Ontario beef producers would be set back by dedicating limited access to government to seeking a guarantee.

There are several other more significant impediments to herd expansion to which BFO could devote their efforts.

There is no assurance that the government would seriously consider guaranteeing the loans under the program is BFO lobbied for the guarantee.

There are other options available to achieve some of the benefits that the sector hopes would accrue from a government guarantee. (See Options below)

BFO Communications:

Notwithstanding that BFO has previously sought a provincial government guarantee in support of the Beef Breeder Co-operative Program, the recent review has determined that only minor benefits would accrue from such a guarantee. Additionally, most of those benefits would be offset by the administrative costs of the program.

Producer focus group discussions and producer interviews do not support the premise that a loan program guarantee would incent significant herd expansion. After 20 years the Beef Breeder Co-operative Program finances less than one percent of the provincial beef cow herd each year.

BFO has promoted the existing Program on the basis that it provides financing for new, low equity producers, a view commonly held by many cow-calf producers. But, the average loan under the program in 2016 was only \$34,800. Access to funding in that range does not warrant seeking a government guarantee when the total borrowing needs for an expansion greatly exceed that amount.

When considering whether to devote resources to secure a provincial government loan program guarantee, BFO must weigh the benefits of the guarantee against the importance of other issues requiring provincial government intervention. There is only so much BFO can ask for and so often BFO can ask. Enhancements to the Risk Management Program and the recently announced federal-provincial territorial review of risk management programs represent much more important initiatives.

Ontario Sheep Finance Program

This review has confirmed from focus groups and producer interviews that there are several major impediments to flock expansion, with several more significant than access to financing. Incenting producers to expand their flocks will require concerted industry effort on a number of fronts.

With respect to financing flock expansion it became apparent that the single most important factor for sheep producers was the opportunity to deal with a "farmer-friendly" lender, one who was not demanding in terms of process and documentation. Conversely, lenders, financial advisors and most sheep industry leaders cite the relatively novice financial skills of many sheep producers and believe there are potential business and due diligence benefits that could accrue to borrowers when required to satisfy lender assurances. Making it easy for producers to access finances could be the worst thing OSMA could do in terms of flock expansion and the growth of a professional industry.

Beef Breeder Co-operatives have been established only in areas where there are concentrations of 15,000 or more cows. Applying the traditional finance/production/revenue ratio of 1 cow = 6 - 8 ewes, that would suggest that a critical mass of 90,000 ewes would be needed to sustain a co-operative. The following chart demonstrates that the only region in the province approaching that number of ewes is Western Ontario, that region north of Hwy 401 and west of Hwy 400. That much geography would prove challenging for a single co-operative to oversee.

Sheep Finance Co-operative Potential

Region of Ontario	Ewes	Counties with major ewe #'s	Comments
Southern (South of 401 plus Middlesex and Lambton)	21,790	Elgin 2,449 Middlesex 7,052 Niagara 3,785 Oxford <u>3,179</u> 16,465	- low potential - Niagara maybe a little distant to supervise.
Western Ontario (Lake Huron - 400 Hwy)	85,761	Bruce 15,236 Grey <u>14,002</u> 29,238 Dufferin 5,997 Simcoe 9,622 Wellington <u>7,821</u> 23,440 Huron 9,647 Perth 9,877 Waterloo <u>12,926</u> 32,450	- reasonable potential only if most of the region was in a single co-op - various combinations of western counties could function as co-op regions. - Traditional alliances and OSMA district boundaries could be a factor.
Central (York to Hastings and Muskoka)	32,052	Durham 4,527 Kawartha Lakes 6,769 Northumberland 6,149 Prince Edward 6,216 York <u>4,548</u> 28,209	- low potential - insufficient numbers of ewes and producers
Eastern	27,193	Frontenac 1,854 Lanark 3,809 Leeds & Gren 5,678 Lennox & Add <u>9,768</u> 20,209	- low potential - insufficient numbers of ewes and producers
Province	172,400	21 Counties 149,911 (87% of provincial flock)	

2016 OMAFRA stats by county

Note: Co-ops could straddle boundaries.

Recommendation: It is recommended that OSMA not pursue the establishment of a co-operative loan program.

If OSMA elects to proceed with a sheep finance program they should consider the establishment of a trial Sheep Finance Co-operative in the western region of the province, serving four or more counties. Expansion of the Program to other regions would be dependent on the degree of success of the trial co-operative.

Efforts to attain a government guarantee should be put aside until three years of the trial co-operative's experience can be assessed.

Prior to promoting a trial co-operative, all producers in the selected catchment area should be surveyed to determine whether there would be sufficient borrowing under the program to warrant the effort and whether there are local champions willing to lead the initiative.

Rationale:

- 1) While current ewe numbers in Ontario are the highest of any province at 172,400, a breeder finance program of the type envisioned requires significant production and borrowing within a relatively close geographic proximity. The critical elements are:
 - sufficient existing production and new production potential to exceed a threshold of loan demand. (Required to attract a commercial lender)
 - local champions for the co-operative
 - four to 6 producer members willing to serve on the co-operative board
 - a minimum of 15-20 loan applicants to sustain the assurance account
 - borrowers who operate within a close proximity of each other to facilitate flock inspection and to ensure enlightened board oversight.
- 2) A loan program would become a factor in the expansion decision only where producers had already addressed a number of other impediments to expansion. In those situations, the producers would in all likelihood be experienced in the industry and would have the capacity to source financing through conventional lending methods.
- 3) Satisfying producers' desires to deal with a "farmer-friendly" lender, thereby avoiding business case preparation and the documentation of debt servicing capacity, is not a credible or convincing reason to implement a Sheep Finance Loan Program.
- 4) Commercial lenders are prepared on the basis of a business case and the ability to service debt to provide financing for sheep industry expansions.
- 5) There is no assurance that the provincial government would commit on the basis of this review to provide a guarantee for the loans.

6) There are several more important strategic policy initiatives that OSMA will be required to deal with in the immediate future. Examples include the federal-provincial-territorial business risk management program review and the future of the Ontario Risk Management Program. Assuring a secure and effective suite of risk management programs would go much further than a loan program in instilling sheep producer confidence and incenting expansion. OSMA's limited ability to influence provincial policy and to get items on the provincial government's agenda can be better directed to other priorities.

OSMA Communications:

We undertook the AgriRisk project to determine whether a Sheep Finance Program would provide an incentive for flock expansion and whether Ontario sheep producers would participate in the program if offered. We were also required by the federal funding agency to determine whether commercial lenders could provide the financing to support flock expansion.

Those producers who participated in the focus groups held across the province indicated that a Sheep Finance Program would represent a meaningful incentive to expansion. However, those same participants identified several other more significant impediments; access to resources (land, quality breeding stock, facilities and labour), parasites, diseases, predators and market uncertainty.

Without addressing those other issues first, an Ontario Sheep Finance Program would have very limited impact on flock growth.

Focus Group producers expressed the full range of views in terms of whether sheep producers would borrow through a sheep finance program.

The beef industry experience with their breeder loan program proves that when establishing such a program it is essential to determine whether there is a critical mass of both production and likely borrowing, within a reasonable small geographic area. The review has determined that the Ontario sheep industry does not possess the animal numbers to sustain a loan program designed along the lines of the Ontario Beef Breeder Co-operative Program.

A Sheep Finance Program Possibility

While the Ontario sheep flock size precludes a successful standalone co-operative loan program, there exists the possibility that OSMA could pursue with Ontario's beef industry a joint breeding stock loan program with common regional administration. That would overcome some of the issues pertaining to low numbers of producers and sheep in close proximity. This

approach is being used with some success in Alberta where in 2017 over 2,400 ewes have been purchased with loans provided by the Alberta Breeder Finance Inc. which operates without government support.

There would be administrative drawbacks and little tangible benefits to the Beef Program participants from a joint program but it could be a successful approach based on the experience in Alberta and British Columbia.

Options to Enhance the Beef Breeder Co-operative Program

The Ontario Beef Breeder Co-operative Program is a mature program and as such there are limited opportunities to enhance its operations. During the focus group and subsequent producer interviews, producers identified a number of features of the program they would like to see amended, believing those improvements would make the program more appealing as a source of financing.

Since the Beef Breeder Co-operative Program operates independent of government support, rules and limitations, the BFO or an individual co-operative could presumably make the alterations suggested during the review. The other party to the operations of each co-operative is the respective commercial lender, be that a bank, credit union, or Farm Credit Corporation. Negotiation with the commercial lender would be critical to introducing the features that producers would like to see included.

Assurance Fund Deposit: Producers would like to see the deposit reduced from the current 15% of the loan to something lower. Any lower amount would be preferable, with a 10% deposit seen by many as a significant improvement. After years of operations and no defaults that even approach an assurance account balance, the program has demonstrated that good co-operative board oversight and inspection mitigate most default risk, and this could warrant a reduction in assurance account deposit levels.

Provincial Assurance Account: When each co-operative generates an assurance account with deposits from its own members to offset some default risk for the lender, the size of the assurance account is limited to 15% of the co-operative's loans. If the deposits of all Program borrowers was pooled provincially, coupled with years of very low default experience, there would be potential to negotiate lower interest rates or a reduction in assurance account deposits. Beef and sheep producers consulted in this project were wary of sharing the default risk of fellow co-operative members from their region, especially sheep producers inexperienced with the program and without the low default experience of the Beef Breeder Co-operative Program. It is unlikely based on the feedback from the focus groups that producers would entertain sharing default risk with others from across the province.

Borrowing Limits: Some producers cite the \$65,000 - \$150,000 limit on borrowing as too low, restricting their expansion. Also, the \$25,000 limit for beginning sheep farmers is cited as an impediment to new producer entry. However, the average loan at \$34,800 is not pushing the ceiling for most borrowers. And some co-op boards and administrators, employing conservative lending principles, restrict the lending to "10% of loans up any one lane". It is unknown how many producers are inhibited from higher borrowing and herd expansion because of the 10% rule or the loan limit.

Co-operative Geographic Boundaries: Limiting the geographic operational area for a co-operative provides a safeguard through board oversight and familiarity with members, and keeps inspection/audit costs within reason. If co-operatives are given the latitude to adjust those limits they could bring more producers within their co-operative. Distant members could be accommodated without increasing risk to others if those outside the traditional boundaries were required to make larger deposits to the assurance account or pay higher inspection/audit fees to offset higher costs. The co-operative board could also be very discriminatory in terms of which distant producers they allow into the membership.

Kawartha Lakes/Peterborough Co-operative: Beef cow numbers in this region are significant enough to support a co-operative. If that co-operative was established the cow numbers within co-operative regions would increase from 65% to 75% of the provincial herd.

Assurance Account Seed Funding/Alternate Limited Guarantee: The assurance account for each co-operative serves a critical function to reduce the risk to the lender, hence making the co-operative's loan portfolio interesting to the lender and making more favourable interest rates possible. However, the assurance account deposit effectively reduces a borrower's funding by 15%, thereby dampening the enthusiasm of producers to participate in the co-operative.

What if there was an alternate source of assurance account funds, thereby reducing the level of deposit required of borrowing members?

Might AgriRisk program funds be made available to backstop each co-operative assurance fund? Or perhaps a single fund, held in trust by BFO could backstop all co-operatives in their lending.

What amount of AgriRisk funding would be needed to reduce, to five or ten percent, the fifteen percent currently deposited by members?

The total collective deposits in all Beef Breeder assurance accounts max out at almost \$2 million. If this approach succeeded in stimulating more use of the program, that could rise to \$3 million. Might a central assurance account holding \$1 million on deposit be sufficient to offset the small risk increase generated by individual co-operatives holding less individually on deposit. If so, the co-operative's commercial lender might accept lower deposits by borrowers.

Federal AgriRisk funding for this purpose could be in the form of a single purpose loan, repayable upon program dissolution and segregated in trust by BFO.

Single Lender Concept: In an attempt to contain administration costs and secure a more favourable interest rate for the Beef Breeder Co-operative Program, a few years ago BFO floated the concept of engaging a single commercial lender to finance all eight current co-operatives. They currently each negotiate terms and conditions of their borrowing with a lender of their choice. Under that proposal each co-operative would maintain its own control over admitting members, approval of loans and administration. The co-operatives rejected the idea, favouring local control and autonomy.

Beef Breeder Co-operative Geography

Region of Ontario	Beef Cows	Cows in Counties with a Co-op	Major Counties Without a Co-op	Potential for a New Co-op
Southern (South of 401 plus Middlesex and Lambton)	34,362	30,160 88%		Nil
Western Ontario (Lake Huron - 400 Hwy)	93,278	70,650 76%	Simcoe 13,516 Waterloo <u>3,169</u> 16,685	Medium
Central (York to Hastings and Muskoka)	44,438	11,517 26%	Kaw Lakes 11,744 Northumb 4,723 Peterbo <u>11,400</u> 27,867	High
Eastern	45,401	34,889 77%	Pres/Russ 2,967 SD&G <u>5,916</u> 8,883	Low
Northern	47,406	41,299 87%		Nil
Province	268,100	188,515 70%		

2016 OMAFRA Stats

Note: data by county boundaries while co-ops straddle boundaries a little.

If a co-op was created in the region with high potential, the portion of beef cows in counties with a co-op would rise to 81%

Alternative Financing Actions to Advance Sheep and Beef Herd Expansion

If government guarantees and loan programs are not the solution to the flock and herd expansion challenges of OSMA and BFO, what can be done to make it easier or more beneficial for producers when arranging financing? Focus group and other producer interactions provided some possibilities. Lenders and financial advisors provided others and gave their views on those raised by producers.

Throughout the project, a conflict existed between a very prevalent producer wish to avoid financial planning and the documentation associated with commercial borrowing and the need for a degree of due diligence on the part of lenders. Reducing that conflict could be very productive in terms of helping expansion-minded producers overcome the financing impediment.

OSMA and BFO appreciate the benefits and requirements of financial/business planning and they undertake to promote the same to members. Listing the following suggestions should not be taken to imply that the organizations are not already making attempts in these areas.

OSMA and BFO Adopt a "Financial Planning First" Attitude to Expansion

Both organizations already promote farm business management with their members and have taken initiatives to encourage good financial practices in their industry. OSMA and BFO could however be more assertive in terms of discouraging producers from seeking the easiest way out. Financial planning, including the documentation of debt financing ability, should be considered a prerequisite for any other efforts by the organizations to assist expansion efforts of members.

Financial planning is in the best interest of expansion candidates. OSMA and BFO should not diminish its importance and should adopt for all operations the credo that financial planning is the pre-eminent best management practice. There should be no countenancing resolutions, comments or presentations that lament financial planning requirements.

To a large degree the two organizations already follow this approach. However, it is questionable whether either Board would speak against a resolution calling for an easing of lender documentation requirements, or tell members, "Don't come to us asking for help until you have undertaken sound financial planning."

Producer Education/Skills Development

Growing Forward II (GFII) provides funding readily for producers wishing to enhance their skills, including in the area of business planning. Promotion of that opportunity and encouragement to engage could be increased. Additionally, should there be sufficient interest, the organizations could arrange GFII-funded business/financial planning tailored specifically for

those sheep or beef producers considering expansion. It is highly likely that the successor to GFII will continue to provide incentives for business skills training.

Risk and risk mitigation are an area where many producers could benefit from a better understanding. Yet another is the basic requirement to provide a prospective lender the assurance of debt servicing ability.

Lender Education

Lenders acknowledged the very strong view by producers that lenders do not understand their business sufficiently and hence are overly demanding and cautious. This is especially the case within the sheep industry, partly due to the less frequent interaction of many lenders and their central credit approval officers with sheep borrowing requests.

Lender seminars have been offered as an attempt to educate lenders and provide them with some tools/key measures with which to gauge a producer's performance and to assess applications for loans. A critical analysis of those efforts might unearth opportunities to improve the lender application of the learning and determine how to increase lender participation. Interactive webcasts could be better received than full day seminars at a remote location from lenders' offices. It is asking a lot to expect a lender who seldom deals with flock or herd expansion to spend a day on the topic.

Expansion Clubs

Each potential expansion candidate must go through a very similar assessment and planning process, including making financing arrangements. At any one time there will be a limited number of such individuals or businesses in the consideration and planning stages. While it would be prohibitive time and distance-wise to physically get together to share ideas and to address concerns, consideration could be given to establishing a virtual expansion club. There would not need to be many members in order to add value but some facilitation/expertise would be needed.

Expansion Planning Tools

Consideration could be given to developing new tools or promoting existing expansion planning and assessment tools and services. BFO has a very extensive financial planning template to assist those considering establishment of a beef operation in Northern Ontario. It would be interesting to learn through a canvassing of those who are known to have investigated northern Ontario beef expansion how extensively they have utilized that tool. It is very detailed. It is likely that a thorough assessment using that tool would provide a solid base on which to make an expansion decision. But, is it so complex that most in the target audience avoid it?

Similarly OSMA has developed economic tools such as their Economic Workbook: Accelerated Lambing Flock. While specific to considerations around changing production systems, that publication is the type of material that could be very useful when making expansion decisions.

Each farming operation is unique. What works for one may not be applicable for others. During the consultations we heard from individuals who had pursued various combinations of borrowing to finance expansion. Documenting some of their creative financing practices as case studies could be of value to those considering expansion and challenged within traditional lending.

Expansion Planning Services

Undertaking financial/business planning is a high hurdle for those who are not experienced in the field. While the GFII provides training assistance, to provide the assurances needed to proceed, kitchen table, hands-on support will be required by many who are contemplating herd or flock expansion. Rational or not, farmers often believe investments in hard assets and livestock take precedence over an investment in planning services. Hence they will not even commit to the reduced cost of a GFII planning project. If OSMA and BFO believe sufficiently in their expansion goals and believe they can or have made a strong case for supporting expansion, they could consider offering (?) or facilitating a no cost or very low cost financial planning service to a select group of serious, expansion-minded producers. Government funding could be sought for this purpose. If the economic benefits of flock or herd expansion have been documented sufficiently, government programs might be convinced to offer such a service to a narrow slice of Ontario farmers.

Appendix 1

Beef Herd – Sheep Flock Expansion/Development Financing Programs

Tinted programs provide breeder cow or ewe funding

Not all programs address funding of livestock operating costs. Others are provided to ensure the breadth of government support programs is presented.

Agriculture and Agri-Food Canada's Advance Programs Program appears a number of times - to demonstrate the delivery agents and participation in provinces.

Program Delivery Agent	Type	Objectives	Eligibility / Applicants	Eligible Costs	Funding Type	Funding Amounts	Performance/ Uptake	Other
British Columbia								
BC Breeder and Feeder Assoc Interest Relief Program	Advance production loans	Assist in accessing operating capital	Feeder Assoc Co-op members (producers)	50% of expected market value of feeder cattle	Interest free loans up to 24 months (or sale of feeders)	Up to \$100,000		\$150 application fee
BC Feeder Associations Loan Guarantee Program	Competitive interest rates for production loans	Lower cost loans and livestock mortality insurance	BC residents who own or lease a farm	Up to 100% of costs for feeder cattle bought through an auction or private sale	Interest bearing loans with terms up to 12 months	Yr 1 \$50,000 Yr 2 \$75,000 Yr 3 \$150,000 Yr 4+ \$300,000		5% deposit required on all loans Provincial gov't guarantee
BC Breeder and Feeder Assoc'n Loan Guarantee Program	Competitive interest rates for production loans	Lower cost loans and livestock mortality insurance	BC residents who own or lease a farm	Bred cattle being purchased or owned already, breeding sheep Not feed or facilities	Interest (prime + 1.5% including admin) bearing loans with terms up to 5 yrs.	Yr 1 \$50,000 Yr 2 \$75,000 Yr 3 \$100,000 Yr 4+ \$200,000	Breeder program has grown from 5,700 head in 2006 to 16,005 head in 2017	10% deposit required on all loans. Province guarantees 15% and increased total guarantee from \$9.75M to \$15M in 2016 as some associations had reached their limit
BC Breeder and Feeder Assoc'n Advance Payments Program	Advance production loans	Access to operating capital	Canadian citizen who owns the agriculture product	50% of expected market value of feeder calf, feeder cattle and finished cattle	Cash advances	Up to \$400,000 First \$100,000 is interest free.	2015: 126 beef feeder loans for \$11.16M and 0 sheep 2016: 121 beef feeder loans for \$9.96M and 0 sheep	Producer must be enrolled in AgriStability. Admin fee of .75% Admin fee of \$250. \$75 for subsequent advances of loan
Alberta								
Feeder Assns of Alberta Loan Guarantee Program	Access to capital	Competitive interest rate loans	Cattle and sheep producers	100% of costs for steers, young heifers, feeder bulls, feeder cows and feeder lambs	Interest bearing loans at prime + 0.9% (1/2 % more than feeder guarantee). with terms up to 2 years depending	Up to \$1,000,000 per person or operation	2011/12: 310,273 cattle for \$282M. 1772 lambs for \$0.283M 2012/13: 316,082 cattle for \$272M. 3,311 lambs for \$0.361M	5% security deposit Province guarantees 15% of loan. Sheep have been in program since 1936.

					on the commodity.		2013/14: 338,898 cattle for \$337M. 8695 lambs for \$1.065M 2014/15: 332,699 cattle for \$518M. 24,207 lambs for \$3.853M 2015/16:292,590 cattle for \$438M. 22,939 lambs for \$3.651M	
Alberta Breeder Finance Inc	Loans for purchase of breeder cattle and sheep	To support the cattle and sheep sectors	Cattle and sheep producers	100% of value for up to 6 yr terms of heifer calves, bred heifers, bred cows and cow-calf pairs, ewe lambs and yearling ewes	Interest bearing loans, prime + 0.9%	Up to \$250,000 per operation		Loan terms and amounts per head vary depending on type of livestock. Loan admin fee of 1% No provincial guarantee
Western Provinces								
# Western Cash Advance Program Inc (Advance Payments Program)	Advance production loans	Access to operating capital	AB and Sask livestock and grain producers	Various rates are set in each province by type of livestock or crop, includes cattle, sheep and goats	Cash Advances (loans)	Up to \$400,000 First \$100,000 is interest free.	For Alberta: 2015: 504 beef feeder loans for \$52.95M, 3 sheep loans for \$0.27M 2016: 296 beef feeder loans for \$31.74M and 9 sheep loans for \$0.16M For Sask: 2015: 689 beef feeder loans for \$47.10M and 8 sheep loans for \$0.18M 2016: 514 beef feeder	

							loans for \$35.66M and 6 sheep loans for \$0.17M	
Manitoba Livestock Cash Advance Program	Advance production loans for cattle producers in Man, Sask & Alta Advance payments for sheep producers in Man and Sask	Help producers meet their financial obligations while benefitting from the best market conditions and improving their cash flow	Cattle producers in Man and Sask and sheep and lamb producers in Man, Sask and Alta	Beef and sheep production costs	Cash Advances (loans)	Up to \$400,000 First \$100,000 is interest free.	For Manitoba: 2015: 294 beef feeder loans for \$25.90M and 4 sheep loans for \$0.13M 2016: 296 beef feeder loans for \$24.97M and 7 sheep loans for \$0.22M	Admin fee of \$250 for first loan and \$75 for subsequent loans
Western Livestock Price Insurance Program	A risk management tool for cattle and hog producers in BC, AB, SK and MN.	Protection against marketplace volatility	Cattle and hog producers in Western Canada	Insures projected value of calves born in spring and sold in fall, and value of feeder cattle and fed cattle based on projected weight of the cattle	Insurance	75 -95% of projected price, policies vary from 12 to 36 weeks and premiums vary based on the market	2014/15: 7,370 policies, \$1.7B in liabilities, \$25.1M in premiums and \$0.4M indemnities 2015/16: 3,289 policies, \$0.7B in liabilities, \$9.1M in premiums and \$21.6M indemnities 2016/17 as of end of Feb: 4,333 policies, \$0.9B in liabilities, \$23.2M in premiums, \$20.5M indemnities	Initiated in Alberta in 2009 and then all 4 Western provinces joined using Growing Forward 2 Agri-Risk Initiative funding.
Canadian Canola Growers Association Advance Payments Program	Advance production loans for crops, livestock and honey	Help producers meet their financial obligations while benefitting	Canadian Citizen or permanent resident who is a livestock	Various rates are set for each province by type of livestock or crop,	Cash Advances (loans)	Up to \$400,000 First \$100,000 is interest free. 18 month repayment on	See above for cattle and sheep in Alta, Sask and Man	Includes on line services

	producers (mainly Prairie provinces)	from the best market conditions and improving their cash flow	and honey producer	includes cattle, sheep and goats		all crops, honey, hogs, lamb, sheep and goats. 24 months on cattle and bison		
Saskatchewan								
Saskatchewan Livestock Loan Guarantee Program	Access to capital at competitive interest rates	To facilitate the growth of Saskatchewan cattle, bison and sheep industry	SK residents who are members of a breeder feeder association	Costs to purchase eligible breeder and feeder livestock	Interest bearing loans	Up to \$500,000 per member, up to \$1.5M per corporation for cattle and bison. Up to \$100,000 for sheep, terms depend on type of livestock	No sheep loan guarantees for past 3 years as no longer a sheep association to deliver the program. 49 cattle associations deliver program to beef feeders and 48 of these to breeders in 2016. 2015: 35,781 feeders for \$52.2M and 8,744 breeders for \$18.1M 2016: 34,273 feeders for \$36.6M and 11,361 breeders for \$22.7M Program has also supported construction of 5 feedlots in past 2 years for \$0.981M	Deposit of 5% for feeders and 10% for breeder loans. SK gov guarantees paying 25% of loan on first default. Defaults have been way below 1% since start of program (mostly due to fraud). Program began in 1984 for feeders and breeders were added in 1991. Bison and sheep added in 1999.
Manitoba								
Manitoba Agricultural Services Corporation	Low interest loans for cattle,	To facilitate growth of Manitoba'	Manitoba residents or	Purchase of feeder cattle, lambs	Interest bearing loans with terms up to	Up to \$500,000, up to 100% of	2011-12: 221 loans for \$23.3M	Security is the livestock. Delivered through 6

n Stocker Loans	lambs and feeder cows	s livestock sector	Canadian citizen or permanent resident, over 18 yrs	and feeder cows	12 months (max. 5 months for lambs and feeder cows)	value of livestock	2012-13: 221 loans for \$20.8M 2013-14: 189 loans for \$20.9M 2014-15: 229 loans for \$29.2M 2015-16: 297 loans for \$48.8M	feeder and 2 breeder associations. #'s to left Include breeder loans and several sheep loans. 5% deposit in an assurance fund for feeders, 10% for breeders.
Manitoba Agricultural Services Corporation Loan Guarantees	Guarantees loans up to 25% of value for feeder and breeder associations	To assist producers in obtaining lines of credit	Members of Manitoba's livestock associations	Purchase of feeder and breeder cattle	Interest bearing loans (prime + 1.5% including admin.) with terms up to 7 years	Up to \$500,000 per producer, \$8M per association	Included in Stocker Loan statistics (see above). Delivered through 2 associations, first has reached lending limit of \$8M. Second Assoc. has financed 1,250 cows in its first year.	(see above Stocker Loans) Prov'l guarantee up to 25% of each assoc'n lender
Ontario								
Agriculture Credit Corp'n + Ontario Beef Feeder Finance Program share delivery of APP	Advance production loans	Help producers meet their financial obligations while benefitting from the best market conditions and improving their cash flow	Canadian citizen or permanent resident in Ontario	Various rates are set for cattle, hogs, sheep lambs, goats and crops	Cash advances (loans).	Up to \$400,000 First \$100,000 is interest free. 18 month repayment	2015: 533 beef feeder loans for \$47.82M and 23 sheep loans for \$0.98M 2016: 464 beef feeder loans for \$40.89M and 17 sheep loans for \$0.65M	Extremely simple application
Ontario Beef Cattle Financial Protection Program	OMAFRA licenses auctions, dealers, packing plants, etc. and establishes a	To provide protection for cattle sellers against default of payment	Eligible Ontario beef cattle sellers	Claims for defaults in payments				Claims are adjudicated by an industry board appointed by the Minister

	compensation fund							
Ontario Beef Breeder Co-operative Program	Eight co-operatives formed in Ontario to provide members with loans to purchase beef breeding females	To encourage and develop beef production in Ontario	18 years of age owning or renting land in Ontario and member of a breeder cooperative	Purchase of breeding beef females	Interest bearing loans (prime +0.5%), up to 5 year term. Cattle are purchased and sold in the name of the co-operative	\$50,000 - \$250,000 Limited to \$25,000 up to \$150,000 for those who have not been active cow producers	Number of co-ops; 8 Number of active members, (total cow inventory), total principal outstanding: 2011: 232 (6,846) \$4.91M 2012: 238 (7,930) \$5.61M 2013: 239 (7,564) \$5.95M 2014: 259 (7,874) \$6.83M 2015: 308 (7,950) \$9.11M 2016: 317 (9,069) \$12.9M	15% assurance account deposit and annual membership fee of \$25 or more. There are areas in Ontario that cannot accommodate more members and areas not covered by a co-operative.
Ontario Feeder Cattle Loan Guarantee Program	17 feeder cattle co-operatives provide credit to members for purchase of feeder cattle	To encourage and develop beef production in Ontario	Beef farmer living in Ontario and member of a feeder cooperative	Purchase of feeder cattle up to 100% of cost	Loan, interest bearing, repaid when cattle are sold. Cattle are purchased and sold in the name of the co-operative	Up to \$500,000	Number of co-ops in 2011-15: 18, in 2016: 17 Active members in 2011: 744, in 2016: 838 Number of cattle purchased 2012: 86,985 2013: 97,448 2014: 95,713 2015: 85,107 2016: 91,631 Total loans advanced during year: 2012 \$89.0M	5% security deposit, admin fees and insurance through the cooperative

							2013 \$100.5M 2014 \$141.3M 2015 \$155.9M 2016: \$126.8M	
Quebec								
Quebec Beef Producers Advance Payment Program	Advance production loans for beef cattle and lambs	To encourage and develop beef and lamb production in Quebec	Quebec beef and lamb producers	Various rates for feeder cattle, veal and lambs	Cash advances (loans). Interest bearing after first \$100,000.	Up to \$400,000 First \$100,000 is interest free. 12 month repayment	2015: 271 beef feeder loans for \$30.71M and 68 sheep loans for \$1.97M 2016: 268 beef feeder loans for \$30.65M and 66 sheep loans for \$2.01M	0.6% admin fee on first \$100,000 and 0.3% on remainder. Minimum fee of \$200 and maximum of \$1,500 per enterprise
Quebec Beef Co-operatives	Financing for purchase of cows, feeders and veal through local cooperatives	To encourage and develop beef production in Quebec	Quebec cattle producers				A number of co-operatives began to fail after a 2012 Quebec Superior Court ruling regarding the legality of Co-op financing beef purchases. In 2015 the FADQ increased its support to help sustain the remaining Coops.	Guarantee provided by La Financiere agricole du Quebec (FADQ)
New Brunswick								
New Brunswick Livestock Genetic Enhancement Program	Incentives to encourage purchase of genetically	To foster the continued improvement of the livestock base	Livestock operations in New Brunswick	Various funding rates depending on type of livestock or product (eg. embryos)	Grants	Various such as 30% of cost of a test station bull up to \$1000, 30% of cost of purebred ewe up to \$400		Funded under Growing Forward. Delivered by producer group, with 10% administration

	superior livestock, mink and fox							fee provided by the program
New Brunswick Beef Handling and Weighing Systems Initiative	Incentives to encourage purchase of efficient systems	To improve herd health, quality and on farm food safety	Beef farmers in good standing with NB Cattle Producers	Head, gates, squeezes, ramps, scales, tubs, etc.	Grants	50% up to \$3000 per farm		Delivered by producer group, with 10 % administration fee provided by the program.
New Brunswick Beef Enhanced Herd Health and Quality Initiative	Incentives to encourage improved health and quality	To improve quality and herd health	Beef farmers in good standing with NB Cattle Producers	Herd health protocols, vaccinations, parasite treatment, etc.	Grants	\$32 per beef cow calf pair		Assistance may be pro rated based on demand Delivered by producer group, 10 % administration is provided by the program
New Brunswick Livestock Incentive Loan	Loan guarantees for purchase of feeder and breeder livestock	To support livestock sector in NB	Livestock farmers in NB	Purchase of breeders or feeders	Loan guarantees	Up to \$75,000; 90% guaranteed at lender's prime rate plus 1%. Up to 18 months term for feeders, up to 7 years for breeders	6 active loans with only 2 loans approved since 2013	
Nova Scotia								
Nova Scotia Agri-Commodity Management Association	Advance production loans for livestock and crops in Atlantic Provinces	Help producers meet their financial obligations while benefitting from the best market conditions and improving their cash flow	Producers of various livestock (includes cattle and sheep) and crops in Atlantic Canada	Various rates are set for cattle, hogs, sheep, lambs, goats and some crops	Cash advances (loans).	Up to \$400,000 First \$100,000 is interest free. 12 month repayment	For NB: 2015: 9 beef feeder loans for \$1.32M and 0 sheep 2016: 8 beef feeder loans for \$1.33M and 0 sheep For NS: 2015: 20 beef feeder loans for \$1.17M and 5 sheep loans for \$0.07M	Must be enrolled in AgriStability or Production Insurance

							<p>2016: 22 beef feeder loans for \$1.40M and 2 sheep loans for \$0.03M</p> <p>For PEI: 2015: 85 beef feeder loans for \$6.72M and 5 sheep loans for \$0.09M 2016: 88 beef feeder loans for \$6.67M and 4 sheep loans for \$0.08M</p> <p>For NL: 2015: nil 2016: nil</p>	
Nova Scotia Sheep Handling, Parasite Control and Elite Ram Purchase Program	Incentives to help sheep producers. Delivered by Sheep Producers of NS	To encourage development of sheep sector	NS sheep producer with no fewer than 15 sheep	Fencing, handling crates, livestock gates, scales and rams	Grant	Various rates up to \$3,000 per farm		Funded under Growing Forward
Nova Scotia Sheep Flock Nova Scotia Cattle Herd Health Program (see NS Sheep Flock) Health Assistance Program	To encourage flock and herd owners to use the services of a professional veterinarian	Improvement of flock and herd health and preventative medicine	NS sheep owners with 30 or more ewes NS cattle producers	4 veterinarian visits annually	Grant	50% of basic call fee and up to \$17 per hour for consultation and service		Owners must maintain current production records
PEI								

Prince Edward Island Livestock Enhancement Program	Supports various projects and programs to develop livestock sector in PEI	To improve competitiveness and enhance product quality	Livestock commodity associations in PEI	Purchase and retention of high quality breeding stock, genetic testing, herd health, feed efficiency improvements				(funded under GF2)
PEI Small Ruminant Enhancement Program	Encourage producers to have superior stock, use herd health protocols, improve feed efficiency	To improve competitiveness and enhance product quality	PEI sheep and goat producers	Purchase of purebred ram or buck, AI, ration software, creep feeder, ration scales, intensive pasture management, etc.	grant	50% of eligible items and services to a max of \$1000		Must take training etc
PEI Beef Project 2016-17	To support genetic innovations, health protocols and feed efficiency	To encourage value chain collaboration and improve farm profitability	PEI beef producers in good standing	Genetic innovations, documented on farm whole herd health protocols, certain vaccines, ration formulation, pasture soil analysis, etc.	Various	Various depending on the eligible activity (eg. 50% of cost for scales up to \$2500)		
Canada								
Agriculture and Agri-Food Canada Advance Payments Program	Federal loan guarantee program for crop and livestock producers delivered by local agents	Easy access to operating funds. Interest free cash advances	Livestock (including beef and sheep) producers through their local delivery agent	Farm input, marketing and other operating costs required to produce the livestock. Not land, buildings, machinery, etc	Cash Advances (loans)	Up to \$400,000. First \$100,000 is interest free. Admin fee of \$250. \$75 for subsequent advances	For all of Canada; 2015: 2,967 livestock loans for \$281.24M. 2016: 2,497 livestock loans for \$239.27M	In Ontario, the delivery agent is the ACC

	and farm organizations							
Canadian Agricultural Loans Act (CALA)	Federal loan guarantee program	To increase the availability of loans for the purpose of the establishment, improvement and development of farms and the processing, distribution or marketing of farm products by agricultural co-operatives.	Canadian beginning farmers, existing farmers, farm products marketing co-operatives.	Land, buildings, equipment, livestock, refinancing, co-operative association loans	Loan guarantee up to 95% of loss to eligible lender with maximum interest of lender's prime + 1% for floating loans and residential mortgage rate plus 1% for fixed. Terms up to 15 years for a farmer and 20 years for a co-operative	Up to \$500,000 per farm operation for real property and up to \$350,000 for any other purpose. Up to \$3M for a co-operative association.		0.85% registration fee for CALA and lender may also charge 0.1% for loans over \$250,000 and 0.25% for smaller loans
American								
USDA Farm Service Agency Loans and Loan Guarantees	Provides access to operating and other capital for farmers who are unable to obtain other funding	To start, maintain and strengthen farms and ranches	Various, including US farmers, Community supported agriculture, etc	Various	Interest bearing loans and loan guarantees	various		Nothing specific for beef or sheep
American Sheep Industry Assoc'n Lets Grow Program	Support, promote and ensure the US sheep industry future	To ensure industry is sustainable by increasing production efficiencies	Producer groups and organizations	Courses, home study, accelerated breeding projects etc	Grants	Up to \$325,000 annually for the program		Applications are evaluated based on potential return on \$\$ invested
Other								

New Zealand Beef-Sheep Farmer Initiated Technology and Transfer	Incentives to investigate issues and opportunities in local farming systems	To help beef and sheep farmers to help themselves by improving productivity / profit	All New Zealand beef or sheep farmers, should be 3 farmers in a group	Projects that have immediate on-farm application to address beef and sheep production issues	Grants	Up to \$10,000 NZ over one year		Results must be shared
Scottish Suckler Beef Support Scheme	Payments to maintain commercial Scottish beef industry	To maintain environmental and social benefits	Scottish beef producers	Suckler beef calves	Grants	103.50 pounds sterling for mainland animals and 153.50 for island animals		Cattle are inspected
Scottish Upland Sheep Scheme	Payments to farmers to maintain sheep in rough grazing areas	To maintain the environment and social benefits from the sheep industry	Scottish sheep farmers	Grazing sheep	Grants	Payments vary depending on type of grazing area		Annual program budget of 8M pounds sterling

Appendix 2

Market and Financial Prospects for the Ontario Cattle and Sheep Industries

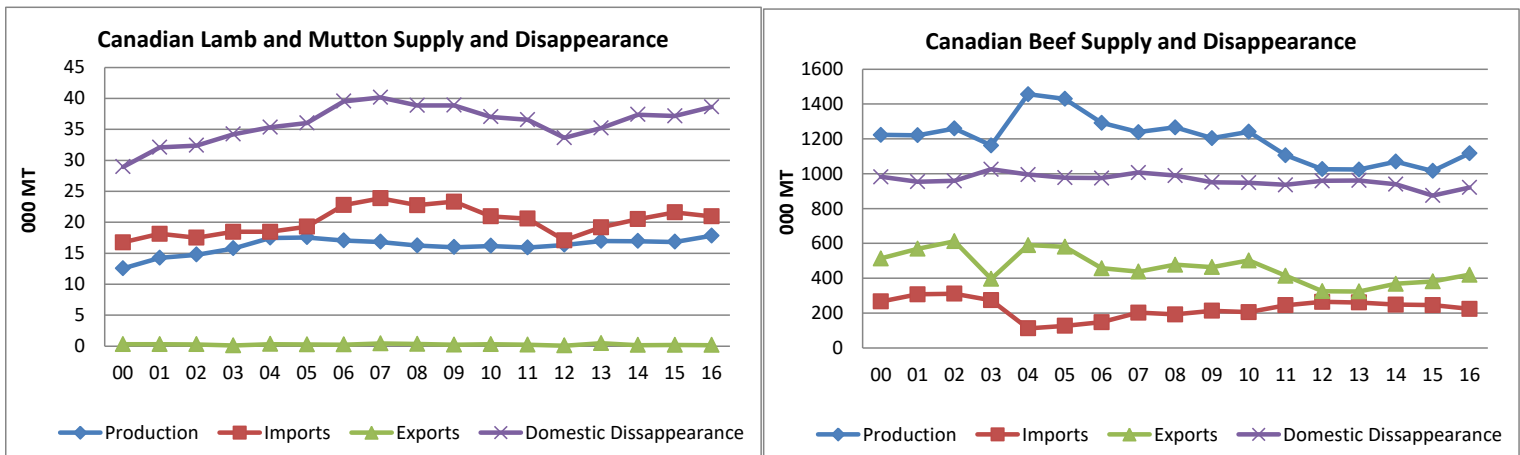
This section of the paper provides an assessment of the future financial and investment prospects for the Ontario cattle and sheep industries. The focus is on the market environment but it includes factors such as the exchange rate and economic growth. In term of its purpose, this section will:

1. Describe the current financial and market situation in the Ontario cattle and sheep industries.
2. Determine the key drivers that will impact the future of these industries
3. Assess the direction and prospects for those key drivers.

Current Situation

Industry Profiles

As a starting point, it is of interest to provide a picture of the nature of the two industries through the supply and demand balances of each from 2000 through 2016.

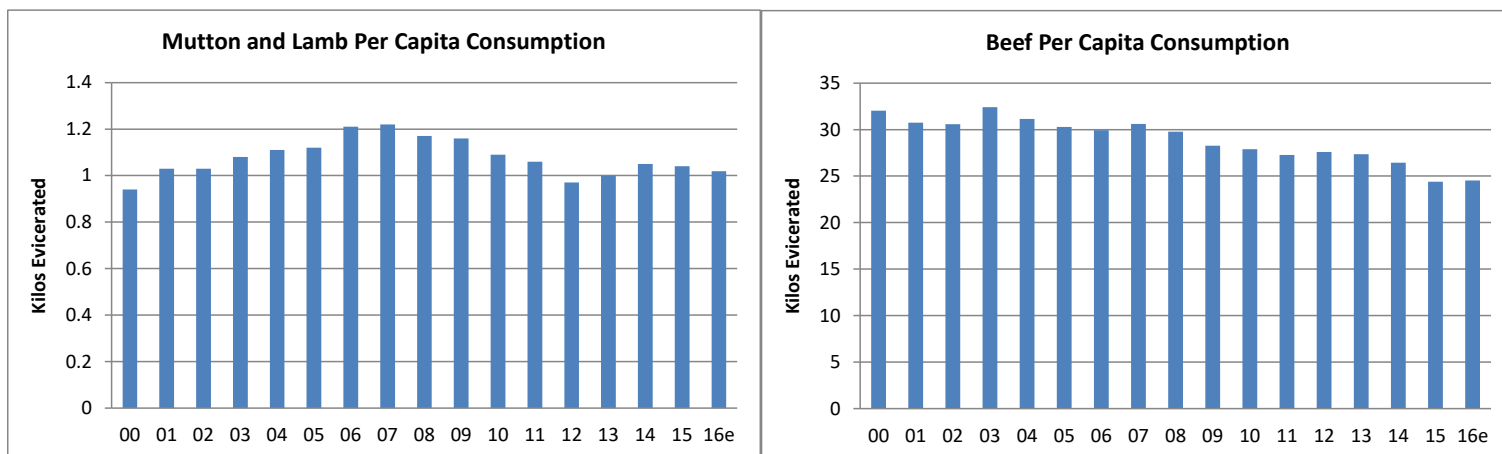


Source: Statistics Canada Cansim

The Canadian lamb market is one that is supplied first by imports and secondly by domestic production, with exports being a non-entity. The main characteristic of the industry is that consumption is much greater than domestic production and hence the importance of imports. Another interesting characteristic is the comparative stability of production. Over the last ten years, lamb production has

trended just over 15,000 tonnes, with a modest uptrend in recent years. Almost all domestic production and consumption of sheepmeat in Canada can be classified as lamb, based on age of finishing or processing.

Lamb is a very minor meat in Canada with regard to overall sales and consumption relative to the other meats. For example lamb and mutton (sheepmeat) production in Canada amounts to roughly 20,000 tonnes on a carcass weight equivalent (CWE) basis compared to over a million tonnes of beef production. On an individual basis, Canadians consume on average just over 1 kilogram of sheepmeat per year on a carcass basis. That compares to about 26-30 kilograms per year for beef in Canada.



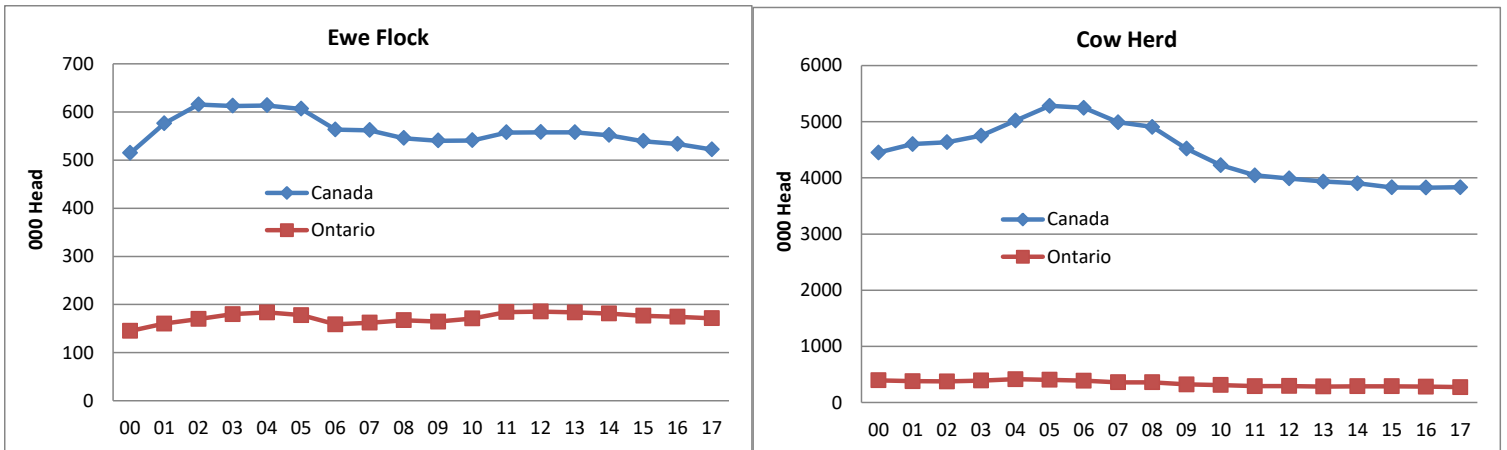
Source: Statistics Canada Cansim

With regard to the Canadian beef industry, production exceeds domestic consumption by a modest amount. Both imports and exports are comparatively large. The large imports and exports reflect the fact that the beef industry is North American in nature and cuts are traded between the United States and Canada on a regular basis. The U.S. represents about 80% of Canadian exports and 55-60% of Canadian imports. Canadian beef production has generally trended lower over the last ten years. With that noted the early years were inflated by large BSE inventories. In recent years production has trended sideways to higher.

Inventory

Of course discussion of production goes together with the livestock inventories. It is noted that the Canadian ewe flock declined by about 2% on January 1 2017 compared to 2016. The Ontario flock declined by a similar amount over 2016. In the ten years from 2006-2016 the Canadian ewe flock declined by a compound rate of half a percent annually. In contrast, the Ontario flock increased by about a percentage point over that same timeframe.

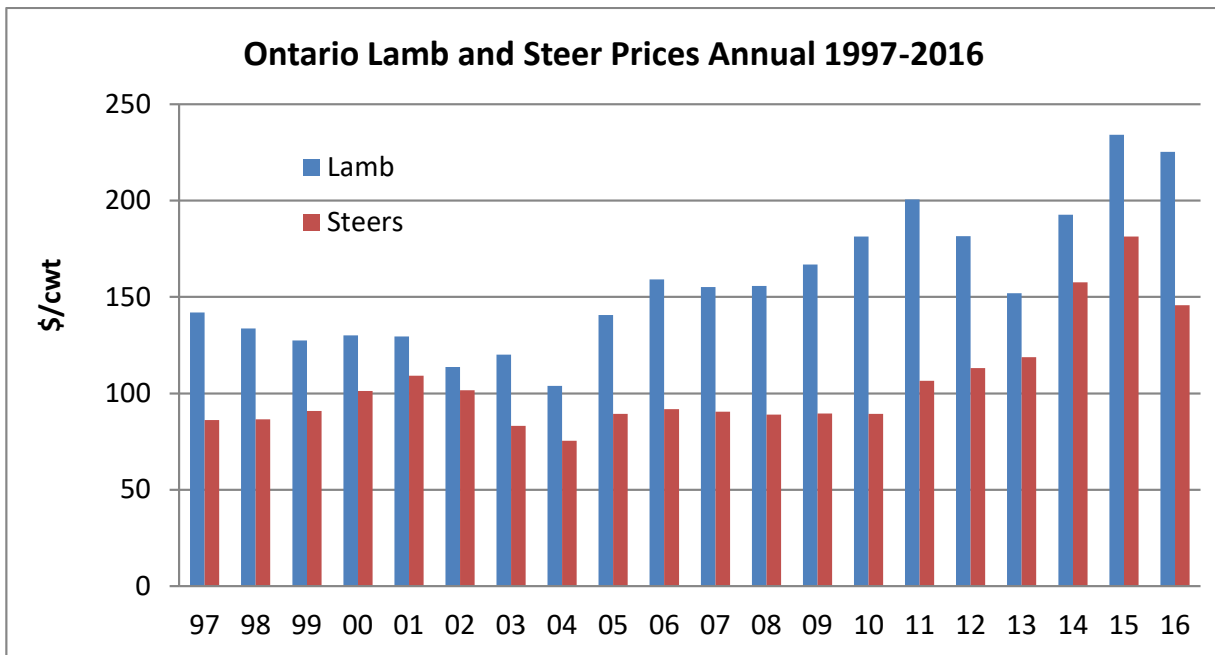
The Canadian beef cow inventory was mostly unchanged from 2016 to 2017 while the Ontario herd declined by 3%. Both the Ontario and Canadian beef cow herds declined at a compound annual rate of 3% from 2006 through 2013. Of course, as noted above, the herd and production in 2006 would have been greatly influenced by the BSE-related distortions in the herd size starting in June 2003. With that noted, the compound annual growth rate from 2011 through 2017 has been -1% for both Ontario and Canada.



Source: Statistics Canada Cansim

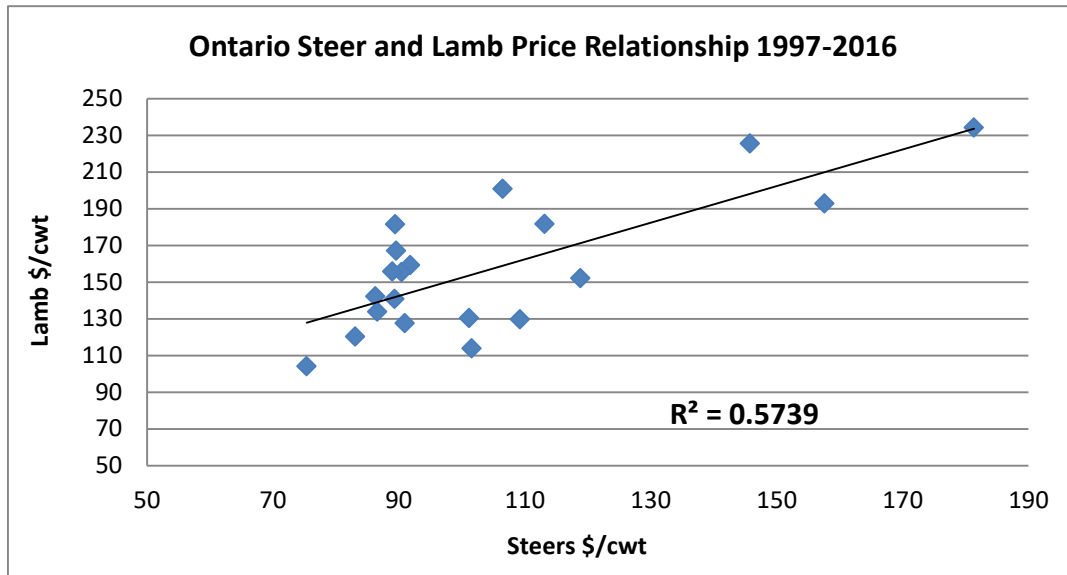
Pricing and Price Relationships

Ontario live steer prices averaged about \$146/cwt in 2016 while lamb prices were \$225/cwt. The prices were down 20% and 4% respectively from those of 2015. Both the cattle and lamb pricing in Ontario increased from 2013 through 2015 before declining in 2016.

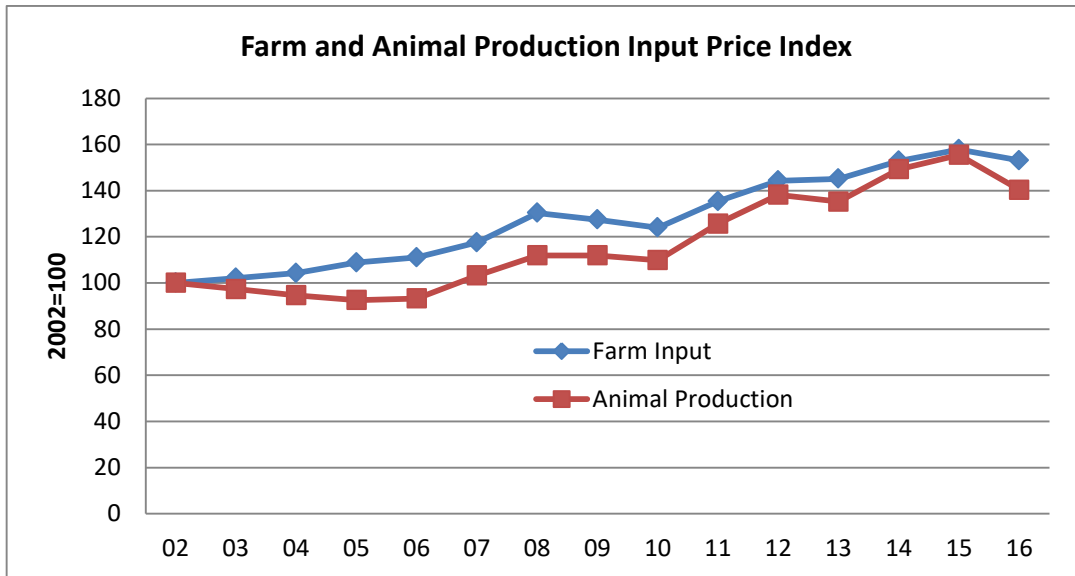


Source: Statistics Canada Cansim

Ontario steer and lamb prices generally move together in the same direction. That is, as cattle or lamb prices move, so moves the other. Over the twenty years from 1997 through 2016, Ontario steer and lamb prices had a near 60% R-squared statistical relationship.



While the Ontario lamb and steer price trends tend to move together in the same direction it is also obvious that the overall costing and input factors of the industry are the same or similar. That is, the inputs of feed, animal health, maintenance and labour, while differing in magnitude between the two industries, are similar in type and scope. In that regard, the costing of the two sectors, as tabulated in the Statistics Canada Farm Input Price Index steadily increased since 2010 and then declined in 2016.

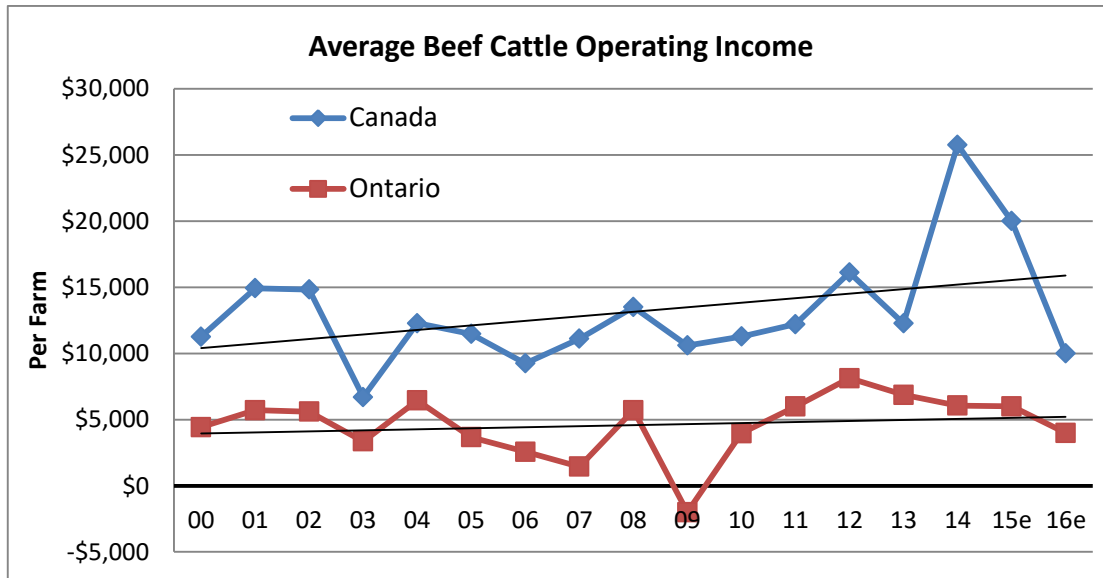


Source: Statistics Canada Cansim

Financial Performance

Statistics Canada provides annual estimates on the receipts, expenses and net incomes of farm operations in Canada and the provinces. The agency does not report data for the sheep industry but there are detailed and long term reports for the cattle industry. This data from Statistics Canada Table 002-0044 runs through 2014. Based on data compiled by Canfax, the values for 2015 and 2016 can be estimated.

It is noted that the Statistics Canada data shows that the average beef cattle income per farm in Ontario is consistently well below the national average in Canada. Not only is the net income lower in Ontario than the Canadian average but the data shows that Ontario producers appear to have missed the significant increases in income experienced in other parts of the country in 2014. The Ontario income performance is not only much lower than the Canadian average but the trend in growth is much less pronounced than the national average. The overall trend of the cattle income in Ontario has been very flat compared to a modest uptrend for the overall Canadian data. While operating income numbers are very low on average for Ontario beef farms, one must remember that there are many small beef farms in the province. More detailed data would be required to adequately display the incomes of Ontario's commercial beef farms.



Source: Statistics Canada Cansim

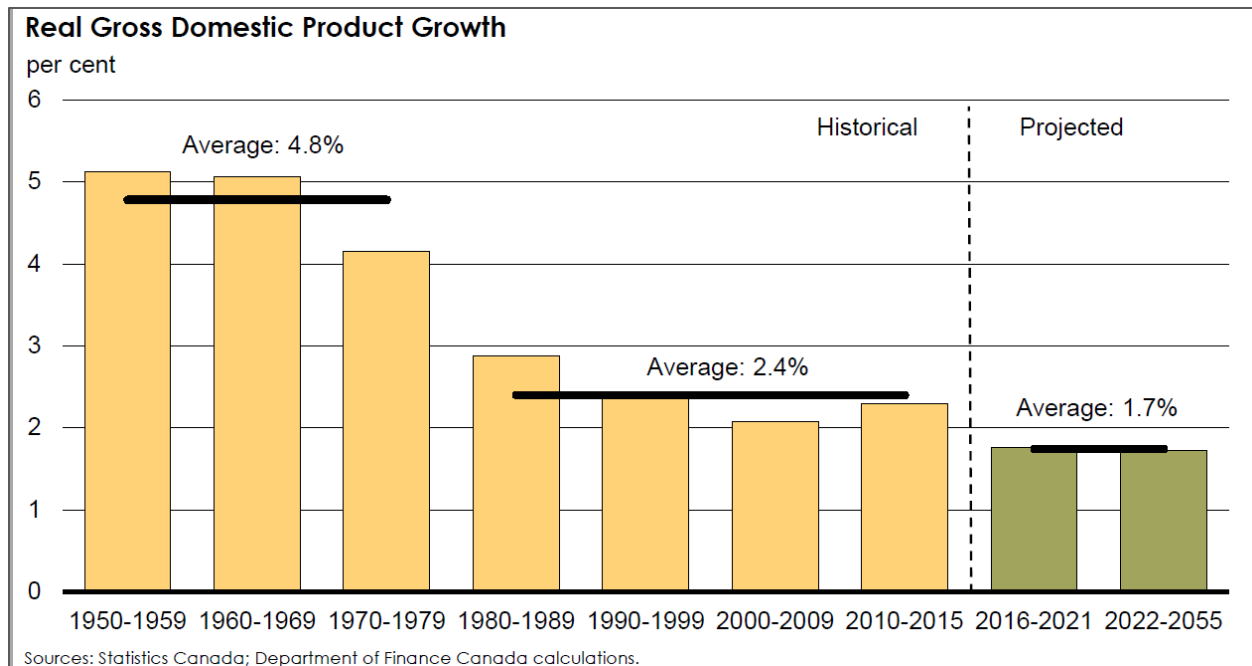
As noted earlier, there is strong similarity in pricing direction between the steer and lamb industries. Also, the overall costing factors and directions of the two industries would be very similar. As such it is reasonable to conclude that the Ontario lamb industry's operating income performance has been trending in the same flat-lined stagnant trend of the Ontario cattle industry.

Drivers for the Future

Macro-Economic Trends

The overall economic performance of Canada will play a role in the direction and prospects for the cattle and sheep industry in Ontario. Factors such as the growth of the economy and the exchange rate will help to determine the direction of demand and pricing for cattle and sheep. That is, the overall economy and level of incomes play a role in the demand for meat. The stronger the economy and the more robust the consumer incomes, the stronger the demand for meat.

In that regard the economic prospects for the future do not appear solid according to the federal government's Department of Finance. Projected rates of growth for the foreseeable future are well below the recent rather slow rates and far below rates seen historically. These federal government projections are in line with other longer term projections provided by international agencies.



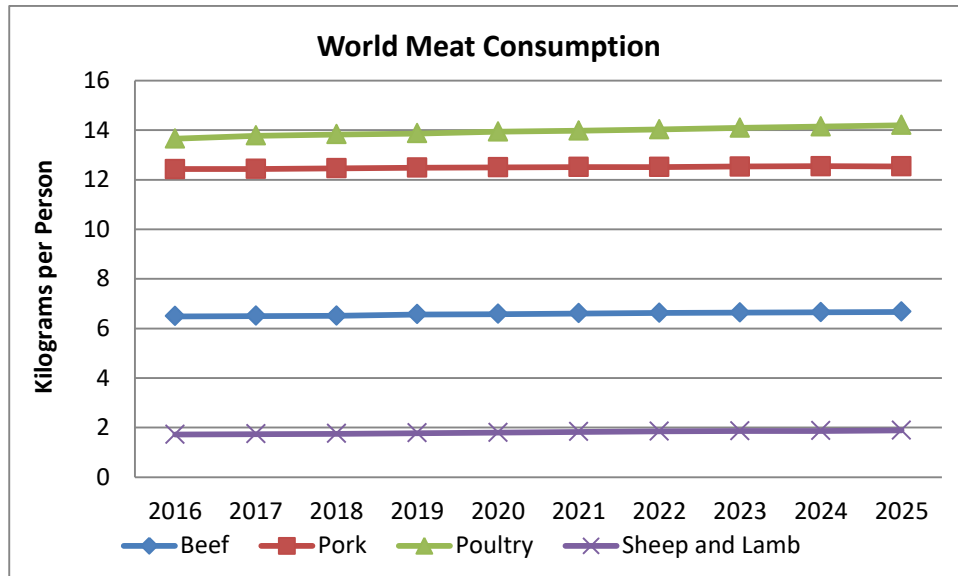
Of course the direction of the Canadian dollar plays a critical role in the direction of Canadian livestock prices. Most private and government forecasts have the C\$ at ongoing depreciation relative to the USD. The publication “Trading Economics” provides long term forecasts on exchange rates. They forecast the 2020 C\$ rate relative to the USD at 1.60. That compares to 1.33 in March 2017.

As such, while the economy does not portend support for meat demand, the exchange rate forecasts do not suggest a currency-related price weakening.

Domestics and International Consumer Trends

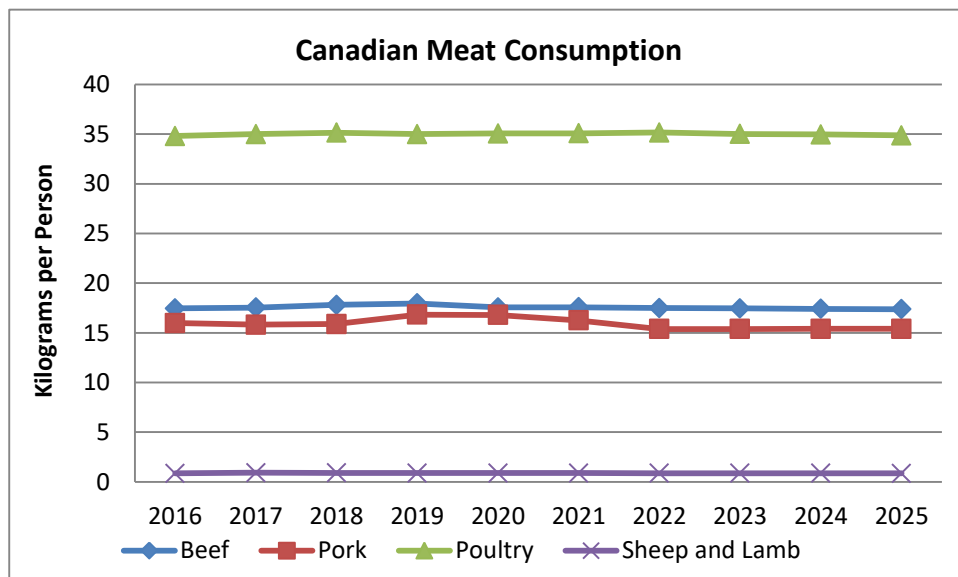
The Organization for Economic Cooperation and Development (OECD) notes that meat consumption is related to living standards, diet, livestock production and consumer prices, as well as macroeconomic uncertainty and shocks to GDP. Meat demand is associated with higher incomes and a diet shift - due to urbanization - to food consumption changes that favour increased proteins from animal sources.

The OECD and the Food and Agricultural Organization’s (FAO) Agricultural Outlook 2016 to 2025 is expecting that consumption of beef, pork, poultry and sheepmeat will be essentially steady to modestly higher through 2025. They project annual rates of growth of less than one percent for beef, pork and poultry and about 1% for sheepmeat.



Source: OECD and FAO

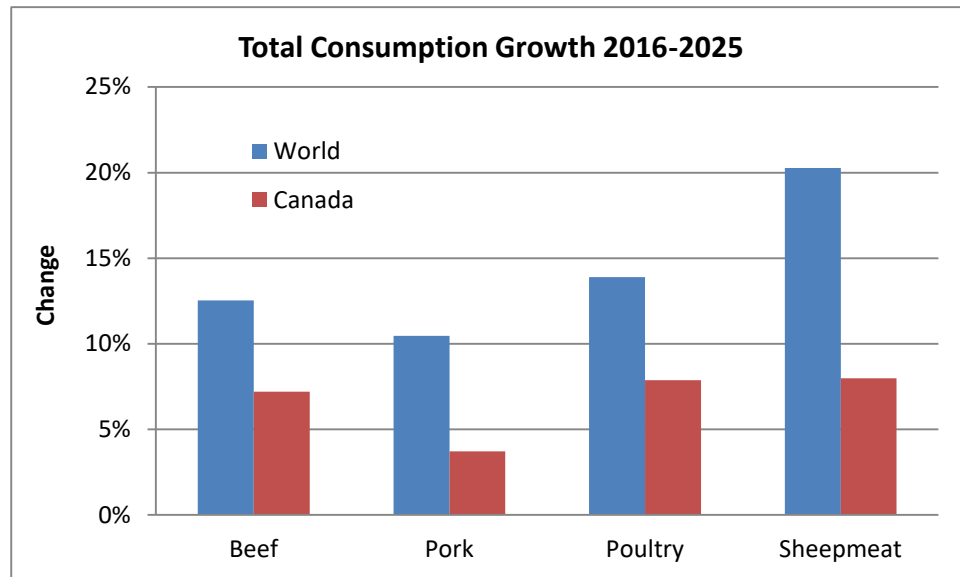
In the domestic market, the OECD and FAO see little or no growth in domestic consumption of beef, pork, poultry and sheepmeat over the 2016 to 2025 period.



Source: OECD and FAO

The main message of the consumption forecasts internationally and domestically is that the evidence and data suggest that there will be little change in overall per capita consumption. That is, while there is no expectation of growth, there will also be no erosion from the current positions.

While there is little or no growth in per capita consumption, total consumption, which accounts for population growth, is forecast to be up between 10 and 20% for world meat totals and between 4% and 8% for Canada's meat totals.



Source: OECD and FAO

Feed Grain Pricing

Supply and pricing of feed grains are among the most important factors driving the growth of the livestock sector in Canada. Of course the main drivers of Canadian grain prices are prices in the United States. In particular the prices of U.S. corn and soybeans are the main drivers of Canadian grain pricing.

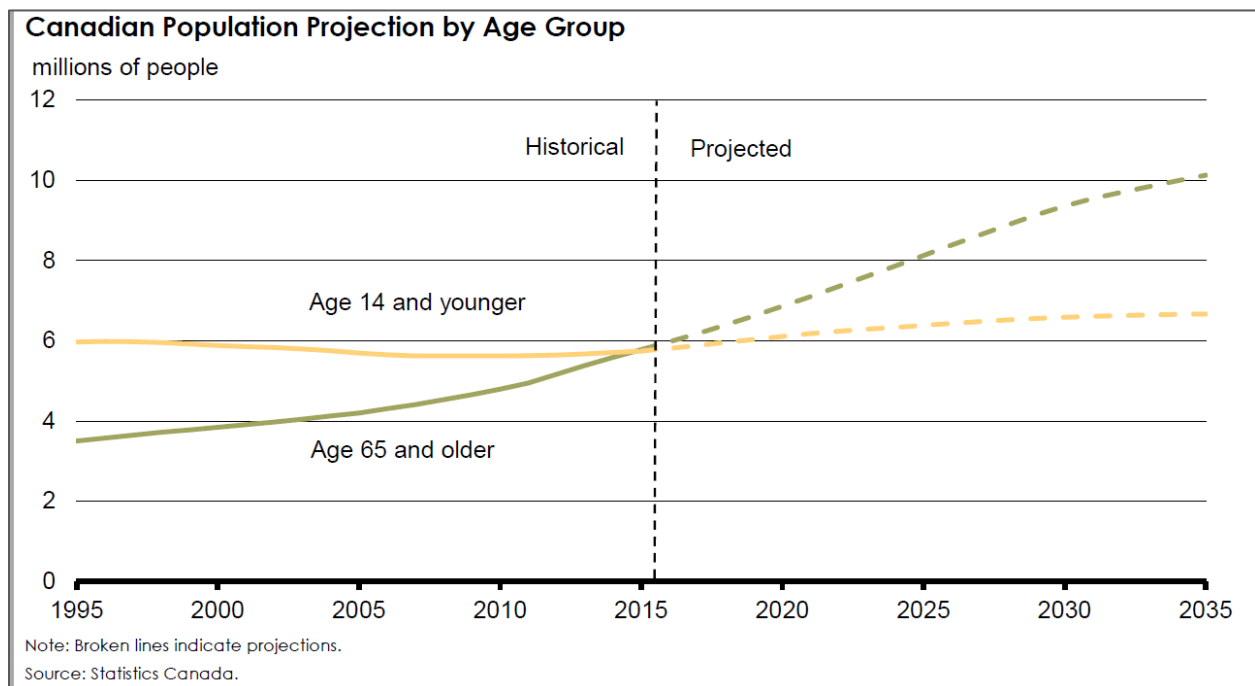
Based on forecasts generated by the Food and Agricultural Policy Research Institute (FAPRI), corn prices in 2022 are likely to range around US\$3.80-3.90/bushel. Soybeans are forecast to range up to US\$10/bushel. Those prices for both corn and soybeans are not much different than the average price levels of 2014-2016. In fact the soybean price forecasts FAPRI are lower than the three year 2014-2016 average while corn is just modestly higher.

Further to those FAPRI forecasts, it is noted that the USDA's Economic Research Service also conducts long range projections. The USDA corn projected prices in the \$3.50-3.60 range in the early 2020's are much lower than the FAPRI forecasts. The USDA soybean pricing projections are also lower than FAPRI, running in the \$9.50 range in the early 2020's.

The bottom line regarding feed grains is that based on the noted projections it does not appear that grain pricing is going to be a challenge to Ontario livestock production.

Labour Force

Combined with falling fertility rates, developments in human longevity has resulted in the Canadian population gradually growing older. For the first time in Canada's history, there are now more seniors age 65 and over than there are children under the age of 15



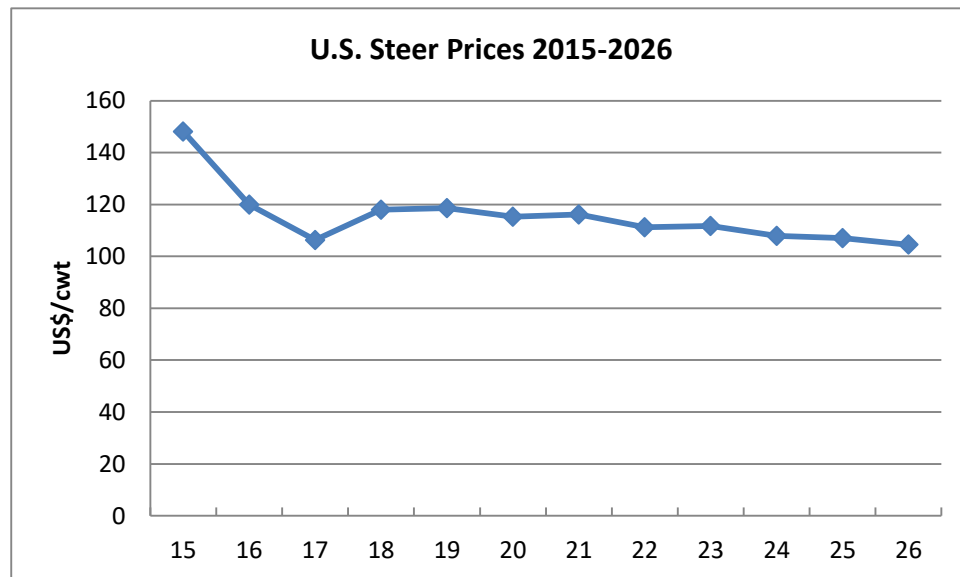
The Canadian Department of Finance says in a 2016 [Update of Long-Term Economic and Fiscal Projections](#) report, “with the oldest members of the large baby boom generation now reaching retirement age, Canada has passed a demographic tipping point. As this large generation retires from the labour market and is replaced by relatively smaller generations of new workers, the ratio of Canada’s workers to our elderly population is expected to decrease dramatically over the coming decades. Indeed, the number of working-age Canadians (aged 15 to 64) for every senior (aged 65 and over) is expected to fall from close to 5 over the past decade to 2.5 in less than 20 years (Chart 2), one of the largest projected decreases among Organization for Economic Co-operation and Development (OECD) countries.”

The main point for the Canadian livestock industries is that there will not be a robust supply of labour available for farming support. In addition, projecting the overall demographics to the farm livestock operations suggests that there could be challenges with farm entrepreneur numbers.

Future Pricing and Production Prospects

Both the USDA and FAPRI conduct long term projections and analysis on cattle pricing and inventories. The USDA analysis goes to 2016 while FAPRI's run to 2021. The overall trend of both sources show a steady but slow downward trend from 2018 through the out-years.

The key point is that based on the best available analysis of these two organizations, there is no reason to argue for either stronger or materially weaker cattle pricing than current levels over the next several years in the United States.



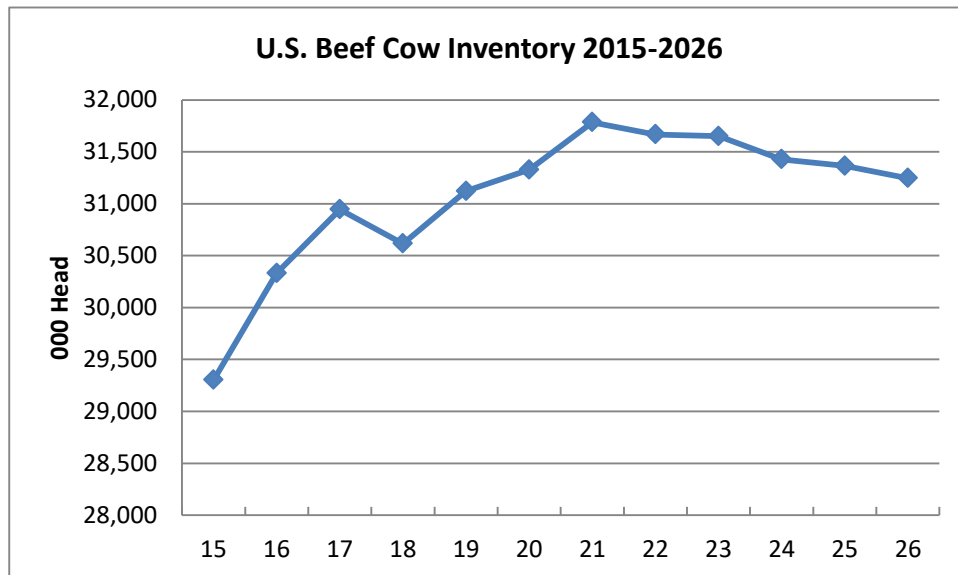
Source: USDA Economic Research Service

Further to that point, recall that Canadian and Ontario pricing is based on U.S. pricing and the exchange rate. Based on that analysis, the only way for there to be dramatic change in Canadian cattle pricing is if there are dramatic changes in the exchange rate. As a further note, recall that Ontario cattle and lamb prices are tied closely in terms of direction and trend. This in turn implies that there are not strong arguments for material change in overall lamb pricing in Ontario as well.

Conversely, based on feed grain pricing projections the best available analysis also indicates that there should not be upward costing and input price pressure.

Future U.S. Inventories

The U.S. beef cow inventory is currently in expansion mode. After the cow herd hit multi-year lows in 2014 and 2015, the sharp increase in prices caused U.S. cattlemen to expand the herd starting in 2015. According to USDA projections this expansion is expected to continue through 2021 before the herd begins to liquidate and decline again.



Source: USDA Economic Research Service

Conclusion of Future Market Drivers for Ontario Cattle and Sheep Inventories

Summary Points

The overall picture of the market drivers discussed above illustrates the following:

- The Ontario and Canadian beef cow herd and the sheep flock have been mostly trending steady to lower over the past several years through the beginning of 2017.
- Ontario steer and lamb prices are closely correlated in terms of trend and direction. The recent trend in prices for both has been lower after sharp moves higher in 2013-2015.
- Input costs for the two industries are very similar as they are dominated by feed, labour and animal health factors.
- The Canadian cattle industry has seen flat to down trending financial performance over the past several years. The overall Canadian industry has financially outperformed the Ontario industry. Based on pricing and input similarities, it is likely that the Ontario lamb industry has also seen flat-lined returns.
- Macro-economic forecasts indicate slow growth for the foreseeable future.

- Per capita consumption of beef and lamb globally and in Canada are expected to be mostly steady with little change in direction up or down.
- While there is little or no growth in per capita consumption, total consumption, which accounts for population growth is forecast to be up between 10 and 20% for world meat totals and between about 4% and 8% for Canada's meat totals.
- Feed grain prices should remain under control and similar or lower than current levels for the foreseeable future.
- Labour availability will continue to be a challenge for the industries in Ontario which will result in upward costing pressure.
- Price prospects in Canada and Ontario are generally lower into the 2020's for both cattle and sheep.
- U.S. inventories of the breeding herds will likely increase in the next 2-3 years before declining.

Conclusions for Ontario Cattle and Sheep Prospects

The overall environment illustrated above is one of stability of market and input factors. None of the drivers from the economy through feed grains indicates dramatic change, improvement or reversals from current conditions. With that noted, the overall pricing direction is likely headed lower which will place negative pressure on margins prospects.

Within that bigger picture context, in Canada and Ontario, by contrast to the United States, the beef cow herd was not expanded in 2015 through 2017. Based on the fact that beef prices now and likely in the future are much less than in 2015/2016, there is no obvious reason why the Canadian and Ontario herd would expand. That is, the price signal for expansion in Canada has passed and is not likely to return. Based on expected pricing and costing, the arguments for expansion or contraction of the Ontario cow herd rest at best on stability for the foreseeable future. The same argument can be placed for the sheep industry in the province.

In summary, the overall market conditions point to stability at best in terms of pricing, costing and overall demand. Ontario cattle and sheep producers will not be able to look to market drivers as a source of growth or contraction. The market will be relatively neutral as a factor for growth.



Appendix 3

Sheep Finance and Beef Cow-Calf Finance Program Validation

Focus Group Discussion Paper

This paper will provide the context and background for a project being undertaken by the Ontario Sheep Marketing Agency (OSMA) and Beef Farmers of Ontario (BFO). Both organizations believe there is a real opportunity to expand their industries in Ontario and have in support of that objective made requests of the Ontario government for financing programs for beef breeder herd and ewe flock expansion. Wheeler Group has been engaged to assist in assessing the investment environment in the Ontario beef and sheep industries, to evaluate the potential impact of the proposed programs and to determine whether Ontario beef and sheep producers would avail themselves of the benefits of the programs, if offered.

A critical component of the project is the canvassing of beef and sheep producer opinions and knowledge. Had we sought to simply obtain the opinions and expansion intents of rank and file producers, a survey of a representative slice of the producer population would have sufficed. However, to ascertain a true understanding of the investment decision making of farmers and to forecast the uptake of the proposed loan programs, a more extensive process is being followed.

Wheeler Group has conducted a literature review of livestock expansion strategies and has compiled materials on the breadth of programs offered in other provinces and in other countries in support of their beef and sheep industries. Particular attention was paid to programs which provide financing for the purchase of breeding stock.

A large number of interviews have been conducted with industry leaders, government officials, agricultural lenders and beef and sheep producers. Based on the information attained to date, it has been possible to construct a producer focus group component to the project, one where knowledgeable and informed producers will contribute their own views on the validation of the financing programs proposed by their provincial organizations.

Wheeler Group, OSMA and BFO appreciate the focus group participants' willingness to contribute to the validation project.

Questions Seeking Answers

Will loan guarantee programs provide the incentive for Ontario sheep and cow-calf producers to expand?

How certain can we be that producers will avail themselves of these financing opportunities?

What other non-financial initiatives might achieve as much or more in terms of expansion incentive or might complement a guarantee loan program?

The Business Case for Herd and Flock Expansion:

It is not the purpose of this project to make the business case for herd and flock expansion, but the final reports will address why BFO and OSMA believe their sectors are poised for growth and why expansion is in the province's and the industries' interests.

In short, as is well known and has been documented for decades, Canadian raised lamb supplies less than half of Canadian market demand, and Ontario lamb supplies an even smaller portion of the Ontario market. Supplying a larger share of the market with Ontario lamb is a challenge that OSMA has taken on in response to the Premier's Agri-Food Challenge. OSMA has established a provincial target population of 222,720 ewes by the year 2020 (January 1, 2017: 171,400).

With respect to the Ontario beef industry, the cow herd in the province has for many reasons shrunk by about 33% over the past 12 years. An increased number of calves are brought into the province to supply the feeding and slaughter segments of the industry, so much so that BFO has concerns for the sustainability for the beef industry in Ontario. BFO has invested considerably in efforts to grow the herd in Northern Ontario. It is believed that adding a provincial loan guarantee to the current Ontario Beef Breeder Co-operative Loan Program will support herd growth across the province.

What is it that BFO and OSMA are seeking?

The Potential Ontario Sheep Finance Program:

OSMA is exploring whether to establish a loan program to provide financing for producers who are wishing to expand their flocks. The target group will be producers with some sheep farming experience. The program will be structured and will function much like the Ontario Feeder Cattle Loan Guarantee Program and Ontario Beef Breeder Co-operative Loan Program, and similar sheep financing programs offered in some other Canadian provinces.

A provincial loan guarantee program, Ontario Sheep Finance Program (OSFP), is a risk management tool that will underscore the financial health of this industry during its expansion and

ensure that Ontario lamb production is meeting the increased demand from Ontario's consumers. Increasing the supply of Ontario product available will put more lambs through Ontario abattoirs, ensuring that they remain in business, keeping jobs in the processing sector and contributing to a strong Ontario economy. The OSFP will be tailored to target producers who are positioned to efficiently and effectively expand their production. Enabling these producers to finance their breeding females through OSFP provides the ability to manage cash flow and expand production without having to sell ewe lambs to generate cash flow. The industry is requesting:

- \$2 million guarantee
- \$30,000 over two years for promotion
- \$60,000 over three years for administrative costs (project administrator)

The purpose of the OSFP is to provide members the ability to purchase ewe lambs or mature ewes from the program financed by a public-private collaborative/co-operative loan program.

There is a desire to collaborate with BFO and keep the OSFP consistent with what the beef industry is doing, aimed at encouraging sector expansion to encourage both mentorship, financial management, and stewardship.

A description of the proposed OSFP is contained in a separate document.

The Proposed Beef Breeder Co-operative Program Guarantee:

Based on the success of the Ontario Feeder Cattle Loan Guarantee Program, BFO introduced the Ontario Beef Breeder Co-operative Loan Program in 2002. Since that time BFO has been seeking to support the program with a government loan guarantee, with the desire to achieve lower interest rates on loans to cow-calf producers and to potentially lower borrower deposits in the associated contingency funds.

Because the current Beef Breeder Co-operative Program operates independent of government, the borrowing capability of the regional co-operatives is limited to the point where the co-operatives cannot satisfy the borrowing desires of current members or other cow-calf producers wishing to join the co-operatives. Also, there are areas of the province not served by a co-operative and hence cow-calf producers in those parts of Ontario do not have access to the loan program. A government loan guarantee would not solve all to the issues of access to loans in those instances, so BFO has proposed more centralized coordination of the breeder loan program and the offering of loans on a provincial basis in order to make the loans available across all regions of the province. This validation project is intended to provide the justification for the Ontario government to implement the loan guarantee.

A summary of Ontario Beef Breeder Co-operative Loan Program activity is provided in the attachments.

What is the Situation Elsewhere?

Around the world, livestock sectors, their organizations and governments are good at describing shifts in livestock production numbers and the health of the industry, and in citing the reasons behind those changes. They often undertake one-off initiatives to support their livestock industries. But evidence of documented growth strategies are hard to come by. And when there exists a strategy to deal with either a declining industry or an opportunity, the focus appears to be on productivity improvements, research and adaptations to changing markets. An example here is the American Lamb Industry's Roadmap Project.

Wheeler Group has undertaken a thorough review of financing programs that target the retention, expansion and development of beef and sheep production in Canada, the United States and some other major livestock producing countries. A program elements table was developed to capture information such as the program objectives, eligibility, funding criteria, program performance and other details. Almost 40 programs were identified. A breeder finance program subset of those 40 programs is provided. Data was obtained from 45 references and websites, as well as email and phone contacts.

Two major, national programs in Canada provide support for both beef and sheep production financing across the country. Agriculture and Agri-Food Canada's Advance Payments Program (APP), which is delivered through local/provincial producer and other agricultural credit organizations, provides operating funding for producing both crops and livestock. The APP advance loans (first \$100,000 is interest free) are paid back as the products are marketed. In Ontario, the 2016 APP supported 464 beef feeder advances for \$40.9M and 17 sheep advances for \$0.65M. The province with the greatest number of beef advances was Saskatchewan (514 advances for \$35.66M) and that with the most sheep advances was Quebec (66 advances for \$2.01M). The Farm Credit Corporation (FCC) provides operating and longer term financing to livestock producers to help them manage and expand their operations. These are all interest bearing loan products similar to services provided by other financial institutions.

As expected, given the importance of the livestock sector to Western Canada, programs supporting livestock are somewhat stronger in the western provinces and have been in existence for longer periods of time. These program generally have more active participation because of the larger numbers of producers and historical presence. As you go from west to east there are fewer provincial programs specifically targeting the financing of beef and sheep production.

The Feeder Associations of Alberta Loan Guarantee Program is the largest program of its type in Canada. The program began in 1936 and is still very active today providing well over \$400M to support production of 300,000 head of beef feeders and 23,000 lambs. Ontario also has an active feeder program providing over \$150M to support production of over 85,000 head of cattle (sheep are not eligible). The other western provinces also offer loan guarantee programs for beef feeders but financing for lamb production is only provided in Alberta and Manitoba. Saskatchewan had supported lamb production but that ended in 2013 as there was no longer a producer association to deliver the program. The feeder cattle co-operatives delivering support in Quebec faced a challenge to the legality

of their delivery of the program in 2012, ending much of their activity. New Brunswick provides feeder financing but the program is almost inactive. No programs are available in the other eastern provinces.

Beef breeder or bred heifer loan guaranteed programs are available in BC, Saskatchewan and Manitoba. These programs have been in place for many years, have some level of provincial government guarantee and are often delivered by the same producer associations that administer feeder loans. Defaults are reported at well below one percent.

In Alberta they offer a breeder loan program without a government guarantee.

Ontario has 8 beef breeder co-operatives that help producers access capital to purchase breeding stock. However, since the loans to the co-operatives are not guaranteed by the government, and backstopped only by producer assurance funds, the interest rates are higher than for feeder loans. Further, sheep are not eligible for the Ontario breeder loans.

Alberta has led the way in developing new programming tools to support livestock production. In 2009 Alberta initiated a Western Livestock Price Insurance Program (WLPIP) which was subsequently adopted by all 4 western provinces as part of their AgriRisk Initiatives under the 2013-2018 Growing Forward 2 federal-provincial-territorial programming. Producers select options and pay premiums for the program, which made payments of over \$20M to Alberta beef producers in 2016-17. WLPIP is only available to cattle and hog producers.

The Ontario government has taken a different but somewhat similar approach to the WLPIP in terms of affording Ontario livestock and crop producers revenue protection. The Ontario Risk Management Program is a fee based vehicle through which producers can enroll to receive market support payments when livestock market prices fall below targets based on production costs.

Some provinces have also developed Growing Forward Programming targeted at improving both beef and sheep genetics, handling facilities, herd health and other aspects of beef and sheep production. The Maritime provinces, in particular, employ these types of grant programs.

The United States Department of Agriculture's Farm Service Agency provides loans and loan guarantees to farmers and ranchers needing operating and other financing they are not able to otherwise obtain. Loans are interest bearing and are not exclusive to beef or sheep. Other U.S. programming is primarily focused on industry product marketing or development of the sector, and not aimed at providing capital to individual producers.

Programming in New Zealand and Australia seems very limited. New Zealand does have some technology initiatives to incent small groups of producers to try new practices on farm to solve beef and sheep production issues.

Scottish producers (and others in the European Union) receive significant grant payments based on their number of cattle and sheep. These payments can vary depending on where the animals are produced, as the primary objective is countryside enhancement.

Later in this paper the Ontario participation rates of various programs are provided.

Program Evaluation. There is a finding of particular relevance to the mandate of this project. While the programs in other jurisdictions are supportive of livestock producers, and the numbers of participants demonstrates that producers see some value in their participation, nowhere in the literature review or explorations with program administrators did we uncover efforts to measure the impact of the programs. There is no documented proof that breeder loan programs actually stimulated more livestock production.

The Expansion Investment Decision

It is a serious undertaking for a farmer or farm family to make the decision to undertake a considerable expansion in their operation. It will be critical when assessing the role that preferential borrowing can play in that decision making to understand the factors that impact the expansion decision. What dominates the thinking of sheep and beef producers when faced with that question?

Some factors:

- Availability of financing - for capital improvements and land
- for operating
- Land availability
- Buildings and machinery/equipment
- Labour availability
- Management capacity
- Family/Succession issues. Now and future
- Impact on off-farm income. Will expansion require forgoing off farm employment?
- Other opportunities - cropping, other farming, non-farming investment
- Impact on lifestyle. What are my objectives?
- Profitability. Will my expansion pay?
- Will I be able to predict prices with any certainty?

Ontario beef farmer survey:

In fall, 2015, BFO conducted six regional consultation workshops of beef producers to explore the potential for expansion of the beef cow herd in southern Ontario. The factors listed above and many more were raised. When asked for a word or two that came to mind when they hear "the expansion of the beef cow herd in southern Ontario", the top two were "opportunity" and "profitability".

When the workshops concluded, three of the top six Suggested Key Areas of Focus were related to farm financing: 1.Ensure strong financing is available, 4.Financially support infrastructure, and 6.Engage government to support herd expansion.

One fundamental challenge for the focus groups in this project is to determine how significant loan guarantee programs are or could be in helping a producer pull the trigger on an expansion plan.

The labour challenge:

The Canadian Agriculture Human Resource Council has conducted an extensive review of current and projected labour needs in Canadian agriculture, by province and by sector. The study found that: "In 2014, the sheep and goat industry had the highest proportion of unfilled jobs compared to other agricultural industries. This labour shortfall affected sales and potential growth." Labour, in this study, included operator/owner labour. And there was no breakdown available between dairy and meat sheep or goats.

When specifically asked about the impact of labour shortages on expansion, 23.8% of the sheep and goat producers surveyed indicated that expansion has been delayed as a result of labour availability concerns. That compares to 15.5% across all of agriculture.

An Economic Forecast of Sector Profitability

For start-up operations, lifestyle, love for livestock farming, supplementing off-farm earnings, pride in land ownership and other non-business factors come into play. But once an operation is established, those desires have been satisfied. Surely the major consideration when thinking of expansion must be, "Will the extra effort and risk be worth it? How much money will this generate?"

While that is a very difficult question to answer with certainty, one can draw on experience, both personal and for the sector. One can forecast efficiencies of scale, reduced per unit labour requirements, etc. But the major question remains.

Another source of information on future prospects can be sought from an economic assessment and projection. One of the Wheeler Group team for this project has built a career on doing just that. Kevin Grier's conclusion, "In summary, the overall market conditions point to stability at best in terms of pricing, costing and overall demand. Ontario cattle and sheep producers will not be able to look to market drivers as a source of growth or contraction. The market will be relatively neutral as a factor for growth."

Availability of Financing

There is no one answer to the question of how difficult it is for a producer to access expansion financing. A number of lenders have been interviewed for this project. Their views on the availability of funding for sheep flock and beef cow-calf herd expansion are remarkably consistent.

- Banking institutions readily lend to sheep and beef farmers and are interested in expanding their portfolios.
- Lending has become much more flexible over the years, accommodating both capital and operating loans, with integration of the current account and the Advance Payments Program to maximize benefits from the interest free \$100,000 available from the federal government.
- A borrower must produce a viable business plan, but lenders are able to help some with that.
- Most farm clients own farmland and in most cases that land is only partly committed as collateral for existing borrowing, providing sufficient capacity to finance a herd or flock expansion.
- Producers with low equity levels will certainly be limited in terms of total financing available.
- A guaranteed loan program does not necessarily deliver a lower interest cost. It will for those most needing the loan program financing. Other high equity operations will already be obtaining funds at or below the program loan rate.
- An expansion financing plan can follow the hog industry depop-repop approach to reduced cash flow resulting from ewe lamb and heifer retention. Lenders are very adept at multi-year financing with fluctuating revenue levels.
- Caution: When generating a financing plan, livestock producers often account for temporarily reduced revenue and the investment costs for animals and buildings, etc., but fail to anticipate the significant carrying (feeding, etc.) costs of the expansion animals until revenue levels increase.
- Where there is a guarantee program, lenders are often willing to defer any repayments for 3-5 years as the business and revenue grow.
- Where a farmer does not wish to pledge land as collateral, operating loans are still available but there is more administration (more frequent reporting, etc.) and those loans incur higher interest rates.

Some related and other questions:

- Is financing really the main impediment to expansion? Or is it a simple excuse why producers are not investing in a low margin, low profitability business?
- Do loan programs provide funds that could be readily available if producers were more willing to pledge land as collateral?
- When a loan program is in place, does it in some cases provide an alternative to one high equity generation backing the next?
- Is loan program borrowing more attractive because banker discussions can be avoided? Less stringent business plans may be required?
- How significant is the interest savings available from government guaranteed loan programs? A saving of 2% on a loan of \$50,000 amounts to \$1,000 per year, which is less than the interest savings which are available and generally not accessed under the Advance Payments Program (up to %\$100,000 interest free).

- Do livestock organizations lobby for guaranteed loan programs to demonstrate their value to members, or because they really believe financing is an impediment to expansion?
- Can a single county/regional resolution to the annual meeting drive an industry request for a financing program?
- Are government guarantees for loan programs sought as a demonstration of the government's commitment to the industry? A validation of the industry?
- Will the program really incent expansion or will it just substitute government guaranteed funds in place of normal commercially available financing, thereby merely providing some farmers with reduced interest costs and providing lenders with lower risk levels.

Currently Available Government Support and Participation Rates

A critical question to be answered by this project is, "If a loan guarantee program is introduced, will Ontario sheep and beef producers pick up on it?"

One may be able to draw inferences if not conclusions to that question by looking at other existing opportunities for Ontario sheep and beef producers to access risk management coverage or financial support payments. Their participation in those existing programs may provide an idea of whether they would seek funding from a loan guarantee program.

Ontario Risk Management Program

Not broken out by livestock sector

Advance Payments Program

Beef feeder loans: 2015: 533 loans for \$47.82M

2016: 464 loans for \$40.89M

Sheep loans: 2015: 23 loans for \$0.98M

2016: 17 loans for \$0.65M

(2016 Quebec sheep APP: 66 loans totalling \$2,012,000)

Ontario Beef Feeder and Breeder Loan History

Ontario Beef Breeder Co-operative Loan Program

8 co-operatives

	Active Members	Cow Inventory (Dec 31)	Principal Outstanding (Dec 31)
2011	232	6,846	\$4.91M
2012	238	7,930	\$5.61M
2013	239	7,564	\$5.95M
2014	259	7,874	\$6.83M
2015	308	7,950	\$9.11M
2016	317	9,069	\$12.90M

Ontario Feeder Cattle Loan Guarantee Program

2016: 17 co-operatives and 838 active members

	Cattle Purchased	Loans Advanced
2012	86,985	\$89.0M
2013	97,448	\$100.5M
2014	95,713	\$141.3M
2015	85,107	\$155.9M
2016	91,631	\$126.8M

Potential of Finance Options to Promote Beef Cow Herd Expansion in Ontario

**Producer Focus Groups
Sponsored by Beef Farmers of Ontario**

April, 2017
Summary of Four Locations Across Ontario

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Executive Summary

Producers from across Southern Ontario met at Kemptville, Brantford, Peterborough and Walkerton for highly interactive focus group workshops facilitated by Bryan Boyle between April 18 and April 27, 2017. The purpose of the sessions was to solicit valuable input from stakeholders to assess the potential of beef finance programs to promote desired growth in the beef cow-calf industry in Ontario.

Participants were asked, “What are the first one or two words that come to your mind when you hear “Financing options for beef cow-calf producers who wish to expand their herd”? Their thoughts were focused around merits, specific options, questions/concerns as well as personal perspectives.

The participants’ perspectives about the status of financing options for beef cow-calf herd expansion covered a broad range and displayed a neutral average.

Participants identified and prioritized what motivates beef cow-calf producers to expand their herds. The motivators identified and prioritized at each location have been clustered for the purposes of this summary report. From highest to lowest priority, these motivators include profitability, availability of resources, people factors, sustainability and economies of scale.

Participants also identified and prioritized the barriers or limiting factors for beef cow-calf producers to expand their herds. The barriers identified and prioritized at each location have been clustered for the purposes of this summary report. From highest to lowest priority, these barriers were lack of profitability, availability of resources, people factors, external forces as well as availability of financing.

Merits as well as challenges that exist for the current Ontario Beef Breeder Co-operative Program were also identified by participants. Prioritized merits or strengths include favourable terms and conditions, peer to peer interaction, ease of access as well as potential for growth and development.

Participants readily identified weaknesses or challenges for the current Ontario Beef Breeder Co-operative Program which include governance and structure, assurance account, geographic gaps in Co-op coverage, overhead and administration, terms and conditions as well as a lack of the government guarantee.

The participants suggested many actions that could help strengthen financing options for beef cow-calf producers (including the Ontario Beef Breeder Co-operative Program) to ensure that there are strong and viable financing options for beef cow-calf herd expansion. These actions were designed to build on the motivators and merits as well as reduce or eliminate the barriers and challenges. At each workshop the potential actions suggested by the

participants were evaluated, grouped into areas of focus and prioritized. The actions identified and prioritized at each location have been clustered for the purposes of this summary report.

Highlights of the areas of focus listed from their highest to lowest priority are:

- 1st: Modify Terms and Conditions
- 2nd: Create Greater Producer Awareness
- 3rd: Engage Key Stakeholders
- 4th: Improve the Structure of Co-ops
- 5th: Encourage Related Improvements

On ballots that are numbered from 1 to 30, participants chose a number that they feel most accurately describes producers' view of a loan guarantee program as an incentive to expand their herds. They each offered factors which pushed the number they chose up or down the scale.

Participants were asked, "What percentage of beef producers *who were planning on a herd expansion* would utilize a loan guarantee program?" They each offered a percentage which averaged at 55.83% and shared their rationale for choosing that percentage.

The focus group workshops were productive events, where the participants were very engaged. Through their valued input, the producers present took an important step to help ensure strong and viable financing options for beef cow herd expansion in Ontario.

Beef Farmers of Ontario

Summary of Producer Focus Groups

Kemptville, Brantford, Peterborough and Walkerton

April 18-27, 2017 Facilitated by Bryan Boyle

Purpose of the Session

To solicit valuable input from stakeholders to assess the potential of beef finance programs to promote desired growth in the beef cow-calf industry in Ontario

Throughout this report whenever two or more participants (or in the cases of the discussion groups-number of groups) offered the same or very similar comments, they are noted with an “x” and the number, i.e. (x3).

Current Perceptions

Participants were asked to share the first one or two words that come to mind when they hear “Financing options for beef cow-calf producers who wish to expand their herd”.

1. Merits

Comments	No.	Locations
Opportunities	3	K, B, W
Useful for producers	1	B
Values of livestock excepted	1	B
Easy to find and use	1	P
Competitive interest rates	1	P
Amount of dollars available	1	P
Outcome gains	1	P
Growth	1	W
Appeals to young producers	1	W
Engaged	1	W
Repayment ability	1	W
Simplicity	1	W
Availability	1	W
Positive terms	1	W

2. Specific Options

Comments	No.	Locations
Bank	2	K
Breeder Co-ops	2	K, W
ACC Advance	1	B
Farm Credit Corporation	1	W

3. Questions and Concerns

Comments	No.	Locations
What are the repayment terms?	3	B, W
What are the interest rates?	1	K
How much is available?	1	K
How difficult is it to get?	1	K
What costs are covered?	1	B
Where is the financing?	1	P
What down payment is required?	1	P

4. Personal Perspectives

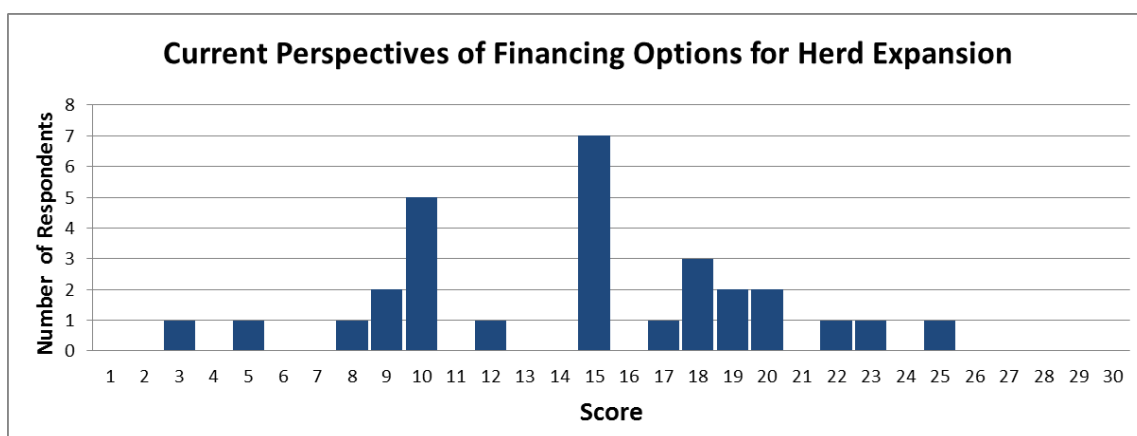
Comments	No.	Locations
Need choices	1	K
Need a reasonable repayment plan	1	K
Desired outcomes	1	B
Like a beef breeder Co-op credit card	1	B
Great idea!	1	P
Enterprise still is to show a profit	1	P
Where there's a will, there's a way!	1	W
I do not need financing as much as I need a profitable price	1	W
Great, let's get going!	1	W

Participants' Perceptions of Financing Options for Herd Expansion

On ballots numbered from 1 to 30, participants indicated the number that most accurately describes the status of financing options for beef cow-calf herd expansion.

#30 = “Top of our Game”: A wide range of readily-available, competitively-priced financing options with a reasonable requirement for application information, record keeping and reporting are in place for any beef cow-calf producer who wishes to expand his herd.

#1 = “Dead in the Water”: There are very few financing options available for any beef cow-calf producer who wishes to expand his herd or the options that exist are not readily available, not competitively-priced or require an unreasonable requirement for application information, record keeping and reporting.



Average = 14.48

Motivators for Beef Herd Expansion

Participants identified and prioritized what motivates beef cow-calf producers to expand their herds. The motivators identified and prioritized at each location have been clustered for the purposes of this summary report. The supporting information for each cluster is shown below the summary table.

Rank	Summary of Motivators	Total Score
1 st	Profitability	53
2 nd	Availability of Resources	36
3 rd	People Factors	31
4 th	Sustainability	29

5th	Economies of Scale	15
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Supporting Information:

Location	Suggested Motivator for Beef Herd Expansion:	Total Score: 53
	Profitability	Rank: 1st
W	Profitability	18
K	Profitability	13
B	Profitability	12
P	Profitability	10

Location	Suggested Motivator for Beef Herd Expansion:	Total Score: 36
	Availability of Resources	Rank: 2nd
B	Availability of Resources	10
P	Available Resources	7
W	Ability to Diversify and Better Utilize Resources	7
K	Available Land Base	7
K	Affordable Financing	5

Location	Suggested Motivator for Beef Herd Expansion:	Total Score: 31
	People Factors	Rank: 3rd
B	Family Dynamics	8
P	Human Resources	7
W	Opportunity for Future Generations	5
K	Optimum Stage in Producer's Life Cycle	4
K	Labour Support	4
K	Positive Mindset	3

Location	Suggested Motivator for Beef Herd Expansion:	Total Score: 26
	Sustainability	Rank: 4 th
P	Sustainability	7
W	Quality of Lifestyle	7
W	Potential to Reduce or Eliminate Off-Farm Job	7
P	External Support	5

Location	Suggested Motivator for Beef Herd Expansion:	Total Score: 15
	Economies of Scale	Rank: 5 th
B	Market and Value Chain Opportunities	6
W	Economies of Scale	4
B	Capturing Efficiencies	4
K	Strong Production Ability	1

Barriers or Limiting Factors to Beef Herd Expansion

Participants identified and prioritized the barriers or limiting factors for beef cow-calf producers to expand their herds. The barriers identified and prioritized at each location have been clustered for the purposes of this summary report. The supporting information for each cluster is shown below the summary table.

Rank	Summary of Barriers or Limiting Factors	Total Score
1 st	Lack of Profitability	62
2 nd	Availability of Resources	55
3 rd	People Factors	21
4 th	External Forces	15
5 th	Availability of Financing	14

Merits or Positives that Exist for the Current Ontario Beef Breeder Co-operative Program

These may be strengths (any factors or conditions that are considered positive and over which we have some control, e.g., skills, expertise, involvement, etc.) or opportunities (any factors or conditions that are considered positive, over which we have little or no control but may be seized by ourselves or others, e.g., demographics, funding, political timing, etc.).

Participants identified and prioritized the merits or positives that exist for the current Ontario Beef Breeder Co-operative Program. The merits identified and prioritized at each location have been clustered for the purposes of this summary report. The supporting information for each cluster is shown below the summary table.

Rank	Summary of Merits that Exist for the Ontario Beef Breeder Co-operative Program	Total Score
1 st	Favourable Terms and Conditions	41
2 nd	Peer-to-Peer Interaction	35
3 rd	Ease of Access	33
4 th	Potential for Growth and Development	12

Supporting Information:

Location	Suggested Merit for the Beef Breeder Co-operative: Favourable Terms and Conditions	Total Score: 41 Rank: 1 st
W	Fair Payment Schedule	12
W	Favourable Terms and Conditions	9
P	Desirable Terms and Conditions	8
P	Limited Capital Investment	6
P	Protects Your Other Assets	4
K	Preferred Financial Arrangements	2

Location	Suggested Merit for the Beef Breeder Co-operative: Peer-to-Peer Interaction	Total Score: 35 Rank: 2nd
K	Lender Identifies with Borrowers	11
P	Peer-to-Peer Interaction	9
B	Farmer Collaboration	8
W	Grassroots Review and Support	7

Location	Suggested Merit for the Beef Breeder Co-operative: Ease of Access	Total Score: 33 Rank: 3rd
B	Unique Financing Opportunities	11
K	Ease of Access	8
P	Accessibility to Financing	7
W	Straightforward Access and Use	5
B	Reduced Administration	2

Location	Suggested Merit for the Beef Breeder Co-operative: Potential for Growth and Development	Total Score: 12 Rank: 4th
K	Potential for Growth	7
B	Management Opportunities	3
W	Geographic Proximity and Shared Vision	2

Challenges that Exist for the Current Ontario Beef Breeder Co-operative Program

These may be either weaknesses (any factors or conditions that are considered negative and over which we have some control, e.g., inactivity, lack of direction, lack of producer support, etc.) or threats (any factors or conditions that could negatively impact us, over which we have little or no control, e.g., political climate, municipal, national or world conditions, etc.).

Participants identified and prioritized the challenges that exist for the current Ontario Beef Breeder Co-operative Program. The challenges identified and prioritized at each location have been clustered for the purposes of this summary report. The supporting information for each cluster is shown below the summary table.

Rank	Summary of Challenges that Exist for the Ontario Beef Breeder Co-operative Program	Total Score
1 st	Governance and Structure	36
2 nd T	Assurance Account	27
2 nd T	Geographic Gaps in Co-op Coverage	27
4 th	Overhead and Administration	19
5 th	Terms and Conditions	16
6 th	Lack of a Government Guarantee	9

Supporting Information:

Location	Suggested Challenge for the Beef Breeder Co-operative:	Total Score: 36 Rank: 1 st
	Governance and Structure	
W	Proper Governance	11
K	Insufficient Structure	10
K	Lack of Leadership or Champions	8
B	Limited Synergy Between Co-ops	7

Location	Suggested Challenge for the Beef Breeder Co-operative:	Total Score: 27
	Assurance Account	Rank: 2 nd T
B	Assurance Accounts at 15%	11
P	Liability risks	6
W	Assurance Accounts at 15% is too high	5
K	Assurance Accounts	5

Location	Suggested Challenge for the Beef Breeder Co-operative:	Total Score: 27
	Geographic Gaps in Co-op Coverage	Rank: 2 nd T
P	Geographic Availability	10
W	Geographic Gaps in Co-op Coverage	8
B	Service Area Gaps	7
K	Geographic distribution	2

Location	Suggested Challenge for the Beef Breeder Co-operative:	Total Score: 19
	Overhead and Administration	Rank: 4 th
B	Costs and Competitiveness	8
W	Overhead and Administrative Costs	7
P	Financial Restrictions	4

Location	Suggested Challenge for the Beef Breeder Co-operative:	Total Score: 16
	Terms and Conditions	Rank: 5 th
B	Credit and Value Limitations	7

W	Establishing Cow Values	4
W	Amount of Funding	3
K	Not Offering Ideal or Competitive Interest Rates	1
W	Mismatch of Production System to Payment Schedule	1

Location	Suggested Challenge for the Beef Breeder Co-operative: Lack of a Government Guarantee	Total Score: 9 Rank: 6th
P	Government Interaction	5
W	Lack of Government Guarantee	4

Potential Actions

There are many actions that could help strengthen financing options for beef cow-calf producers (including the Ontario Beef Breeder Co-operative Program) to ensure that there are strong and viable financing options for beef cow-calf herd expansion. These actions should build on the motivators and merits as well as reduce or eliminate the barriers and challenges.

Participants identified and prioritized potential actions beef cow-calf producers to ensure that there are strong and viable financing options for beef cow-calf herd expansion. The actions identified and prioritized at each location have been clustered for the purposes of this summary report. The supporting information for each cluster is shown below the summary table.

Rank	Key Areas of Focus to Ensure Viable Financing Options for Beef Cow Herd Expansion	Total Score
1st	Modify Terms and Conditions	1450
2nd	Create Greater Producer Awareness	920
3rd	Engage Key Stakeholders	780
4th	Improve the Structure of Co-ops	745
5th	Encourage Related Improvements	305

Supporting Information:

Location	Key Areas of Focus to Ensure Viable Financing Options for Beef Cow Herd Expansion: Modify Terms and Conditions	Total Score: 1450 Rank: 1st
B	Modify Terms and Conditions	255
W	Expand Scope to Match Production and Marketing to Financing Options	190
P	Ensure Sustainable Financing	185
W	Build in Flexibility in Financing Repayment	170
B	Evaluate Breeder Co-op versus Other Sources of Financing	145
P	Enhance Program Details	140
P	Develop Meaningful Tax Incentives	130
W	Create More Favourable Terms and Conditions	120
K	Improve Tools for Financing	115

Location	Key Areas of Focus to Ensure Viable Financing Options for Beef Cow Herd Expansion: Create Greater Producer Awareness	Total Score: 920 Rank: 2nd
W	Improve Producer Education	245
P	Create Club Awareness	170
B	Promote and Educate re: Advantages	155
B	Attract New Entrants	150
W	Create Intergenerational Engagement	120
P	Market the Merits of Our Industry	80

Location	Key Areas of Focus to Ensure Viable Financing Options for Beef Cow Herd Expansion: Engage Key Stakeholders	Total Score: 780 Rank: 3rd
W	Source and Educate Additional Lenders	250
K	Encourage Beef Farmers of Ontario (BFO) engagement	200
B	Develop Symbiotic Relationships	140
B	Strengthen Other Programs	95
K	Improved Stakeholder Communication	80
K	Encourage Private Industry Engagement	15

Location	Key Areas of Focus to Ensure Viable Financing Options for Beef Cow Herd Expansion: Improve the Structure of Co-ops	Total Score: 745 Rank: 4th
K	Improve Structure and Foundation of Beef Breeder Co-ops	280
B	Create Centralized Structure	250
K	Share Services and Responsibilities	110
W	Expand the Coverage in the Reach of Breeder Co-ops	105

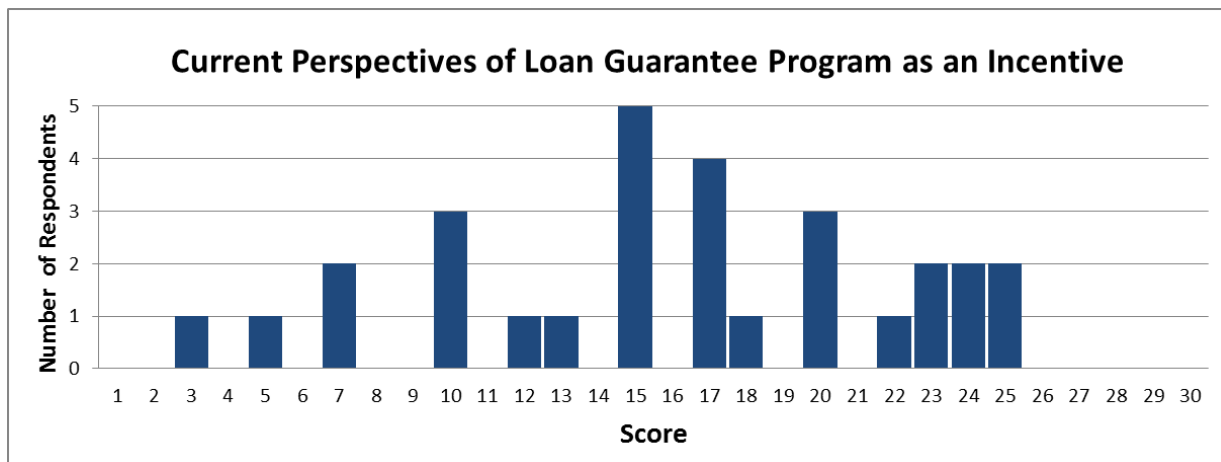
Location	Key Areas of Focus to Ensure Viable Financing Options for Beef Cow Herd Expansion: Encourage Related Improvements	Total Score: 305 Rank: 5th
P	Promote or Require Effective Land Use	175
K	Improve Marketing	100
P	Utilize Technology	30

Loan Guarantee Program as an Incentive

On ballots that are numbered from 1 to 30, participants chose a number that they feel most accurately describes producers' view of a loan guarantee program as an incentive to expand their herds.

#30 = "Top of our Game": An effective loan guarantee program with reasonable requirements would be a prime motivator for producers to consider a herd expansion.

#1 = "Dead in the Water": An effective loan guarantee program with reasonable requirements would have very little, if any, motivational impact on producers to consider a herd expansion.

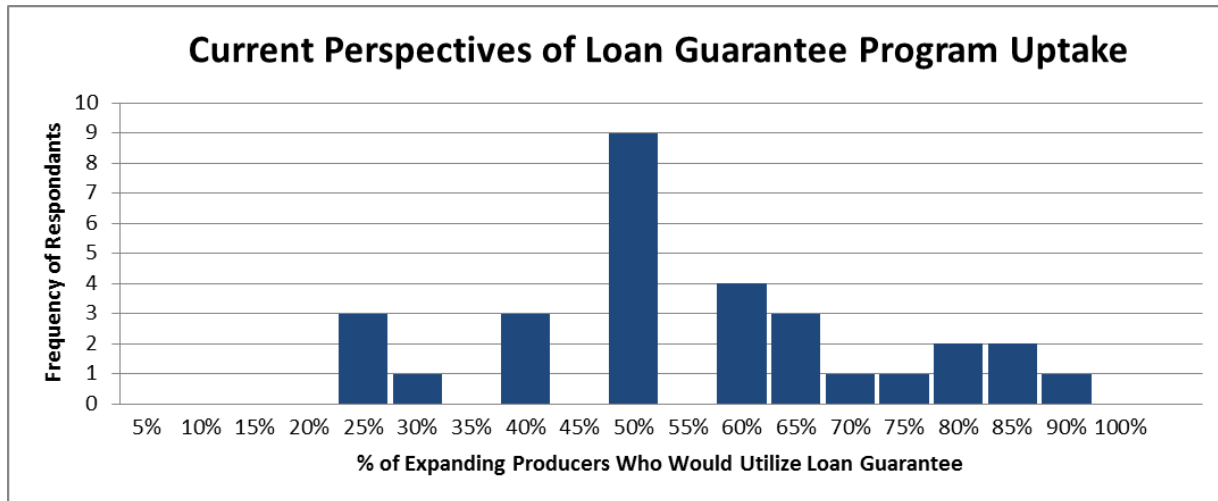


Average = 16.00

Participants shared the factors that pushed their number up or down the scale. In general, they related to the motivators, barriers of financial options as well as the merits and challenges relating to the Beef Breeder Co-op program. All the individual rationale shared is recorded in the detailed report from each focus group location.

Loan Guarantee Program Uptake

Participants were asked, “What percentage of beef producers *who were planning on a herd expansion* would utilize a loan guarantee program?”



Average = 55.83%

Participants shared why they chose their specific percentage.

1) The following are some of the characteristics that participants attributed to those producers who would be most likely to utilize the loan guarantee.

Producers who:

- are younger producers with lower equity
- are financing a large number of cows for meaningful expansion
- value the ease and accessibility of the program
- want to free up operating money to use elsewhere on the farm
- like the flexibility of the program
- find Beef Breeder Finance as good or better than borrowing from a bank
- appreciate the easy repayment plan
- have previous experience with the Beef Feeder Co-ops
- might get a better interest rate from Breeder Finance than from the banks
- feel Breeder Finance Co-op is the “best game in town”

2) The following are some of the characteristics that participants attributed to those who would be least likely to utilize the loan guarantee.

Producers who:

- are established producers with strong equity levels
- have developed a strong relationship with their lender
- are larger producers who self-fund
- are younger producers who have access to family money
- plan to retain heifers from their own herd
- have concerns about the 15% assurance account
- do not wish to be liable for other producers' actions

Summary of the Workshops

The focus group workshops were productive events, where the participants were very engaged. Through their valued input, the producers present took an important step to help ensure strong and viable financing options for beef cow herd expansion in Ontario.

Potential of Finance Options to Promote Sheep Flock Expansion in Ontario

Producer Focus Groups

Sponsored by Ontario Sheep Marketing Agency

April 2017

Summary of Four Locations across Ontario



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Executive Summary

Producers from across Southern Ontario met in Kemptville, Brantford, Peterborough and Walkerton for highly interactive focus group workshops facilitated by Bryan Boyle between April 19 and April 28, 2017. The purpose of the sessions was to solicit valuable input from stakeholders to assess the potential of sheep finance programs to promote desired growth in the sheep industry in Ontario.

Participants were asked, “What are the first one or two words that come to your mind when you hear “Financing options for sheep producers who wish to expand their flock”? Their thoughts were focused around merits, specific options, questions/concerns as well as personal perspectives.

The participants’ perspectives about the status of financing options for sheep flock expansion covered a broad range and displayed a slightly negative average.

Participants identified and prioritized what motivates sheep producers to expand their flocks. The motivators identified and prioritized at each location have been clustered for the purposes of this summary report. From highest to lowest priority, these motivators include financial viability, market potential, efficient use of resources, succession planning, personal satisfaction as well as economies of scale.

Participants also identified and prioritized the barriers or limiting factors for sheep producers to expand their flocks. The barriers identified and prioritized at each location have been clustered for the purpose of this summary report. From highest to lowest priority, these barriers are financial limitations, availability of land and infrastructure, production issues, human resources and external forces.

Merits that exist for the current financial options for producers to expand their flocks were also identified by participants. Prioritized merits or strengths include favourable interest rates, terms and conditions, stakeholder engagement, external support as well as lenders show interest.

Participants readily identified weaknesses or challenges for the current financial options for producers to expand their flocks which include financial risks, meeting lenders' requirements, stakeholder engagement as well as market and entry risks.

The participants suggested many actions that could help strengthen financing options for sheep flock expansion. These actions are designed to build on the motivators and merits as well as reduce or eliminate the barriers and challenges. At each workshop the potential actions suggested by the participants were evaluated, grouped into areas of focus and prioritized. The actions identified and prioritized at each location have been clustered for the purposes of this summary report.

Highlights of the areas of focus listed from their highest to lowest priority are:

- 1st: Ensure Favourable Terms and Conditions
- 2nd: Engage Key Stakeholders
- 3rd: Establish New Financial Initiatives
- 4th: Improve Production Efficiencies
- 5th: Target Expanding Markets

On ballots that are numbered from 1 to 30, participants chose a number that they feel most accurately describes producers' view of a loan guarantee program as an incentive to expand their flocks. They each offered factors which pushed the number they chose up or down the scale.

Participants were asked, "What percentage of sheep producers *who were planning on a flock expansion* would utilize a loan guarantee program?" They each offered a percentage which averaged 52.16% and they shared their rationale for choosing that percentage.

The focus group workshops were productive events, where the participants were very engaged. Through their valued input, the producers present took an important step to help ensure strong and viable financing options for sheep flock expansion in Ontario.

Ontario Sheep Marketing Agency

Summary of Producer Focus Groups

Kemptville, Brantford, Peterborough and Walkerton

April 19-28, 2017 Facilitated by Bryan Boyle

Purpose of the Session

To solicit valuable input from stakeholders to assess the potential of sheep finance programs to promote desired growth in the sheep industry in Ontario

Throughout this report whenever two or more participants (or in the cases of the discussion groups-number of groups) offered the same or very similar comments, they are noted with an “x” and the number, i.e. (x3).

Current Perceptions

Participants were asked to share the first one or two words that come to mind when they hear “Financing options for sheep producers who wish to expand their flock”.

1. Merits

Comments	No.	Locations
Industry Growth	4	K, B, W
Opportunities	3	P, B, W
Ease of Administration	2	K, W
Money	1	K
Current price	1	P
Low cost	1	W
Financial support	1	W
Financial help	1	W
Quality	1	K
Low interest	1	B
Availability	1	P
Traceability	1	K
Long-term viability	1	B

2. Specific Options

Comments	No.	Locations
Financial loans	3	W
Is there more than one?	1	P
Producer finance program	1	K
Money	1	W
Bank	1	B

3. Questions and Concerns

Comments	No.	Locations
Costs	5	B,P,W
What are the terms?	2	K, W
How much paperwork?	2	K, P
Debt	2	B, P
What can the funds be used for?	1	K
How long can producers use the money?	1	W
What are the qualifications?	1	W
Strings attached	1	K
Red tape	1	K
Where to find information	1	K
Is it worth extra expense and labour?	1	K
Management	1	B
Risk	1	B
Repayment	1	P
Regulations	1	P

4. Personal Perspectives

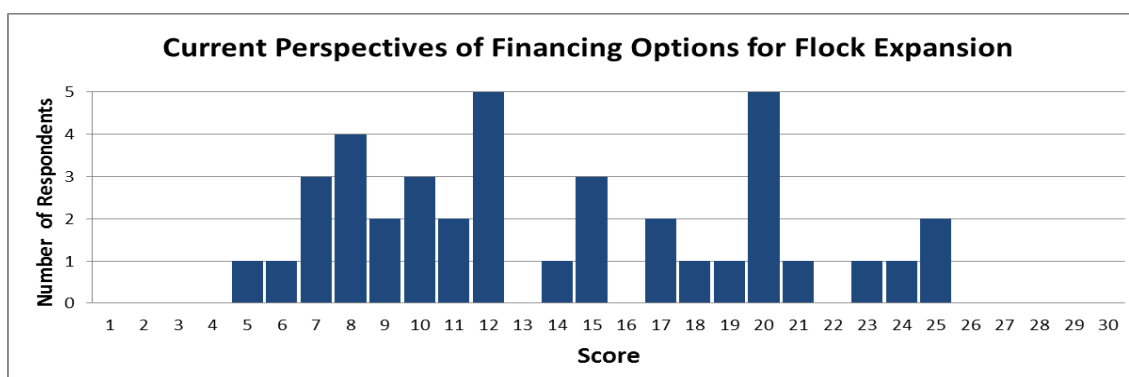
Comments	No.	Locations
Infrastructure	2	P, W
Money is not a barrier	1	B
Need options, availability and a reason to expand	1	B
Non-existent	1	P
New genetics	1	W
Replacements	1	W
Breeding programs	1	W
New barn	1	B

Participants' Perceptions of Financing Options for Flock Expansion

On ballots numbered from 1 to 30, participants indicated the number that most accurately describes the status of financing options for sheep flock expansion.

#30 = "Top of our Game": A wide range of readily-available, competitively-priced financing options with a reasonable requirement for application information, record keeping and reporting are in place for any sheep producer who wishes to expand his flock.

#1 = "Dead in the Water": There are very few financing options available for any sheep producer who wishes to expand his flock or the options that exist are not readily-available, not competitively-priced or require an unreasonable requirement for application information, record keeping and reporting.



Average = 13.89

Motivators for Sheep Flock Expansion

Participants identified and prioritized what motivates sheep producers to expand their flocks. The motivators identified and prioritized at each location have been clustered for the purposes of this summary report. The supporting information for each cluster is shown below the summary table.

Rank	Summary of Motivators	Total Score
1 st	Financial Viability	73
2 nd	Market Potential	36
3 rd	Efficient Use of Resources	33
4 th	Succession Planning	28
5 th	Personal Satisfaction	27
6 th	Economies of Scale	14

Supporting Information:

Location	Suggested Motivator for Sheep Flock Expansion: Financial Viability	Total Score: 73 Rank: 1st
W	Profitability	32
W	Viability and Sustainability	14
P	Financial Success	11
K	Business Sustainability	9
B	Profitability and Sustainability	7

Location	Suggested Motivator for Sheep Flock Expansion: Market Potential	Total Score: 36 Rank: 2nd
W	Market Opportunities and Potential	15
P	Market Potential	13
B	Market Stability	6
K	Demand	2

Location	Suggested Motivator for Sheep Flock Expansion: Efficient Use of Resources	Total Score: 33 Rank: 3rd
W	Available Resources	13
P	Efficient Use of Resources	6
B	Available Resources	6
K	Investment in Quality Inputs	4
B	Labour Availability	4

Location	Suggested Motivator for Sheep Flock Expansion:	Total Score: 28
	Succession Planning	Rank: 4 th
W	Succession	12
B	Ensures Succession	5
P	Succession planning	5
K	Labour Efficiencies and Productivity	5
K	Potential for Succession Planning	1

Location	Suggested Motivator for Sheep Flock Expansion:	Total Score: 27
	Personal Satisfaction	Rank: 5 th
W	Passion for the Industry	13
B	Personal Satisfaction	10
P	Striving for Satisfaction	3
P	Primary Career and Income Source	1

Location	Suggested Motivator for Sheep Flock Expansion:	Total Score: 14
	Economies of Scale	Rank: 6 th
B	Maximize Efficiency	6
W	Economies of Scale	5
K	Economies of Scale	3

Barriers or Limiting Factors for Sheep Flock Expansion

Participants identified and prioritized the barriers or limiting factors for sheep producers to expand their flocks. The barriers identified and prioritized at each location have been clustered for the purpose of this summary report. The supporting information for each cluster is shown below the summary table.

Rank	Summary of Barriers or Limiting Factors	Total Score
1 st	Financial Limitations	95
2 nd	Availability of Land and Infrastructure	61
3 rd	Production Issues	48
4 th	Human Resources	37
5 th	External Forces	21

Supporting Information:

Location	Suggested Barrier for Sheep Flock Expansion:	Total Score: 95
	Financial Limitations	Rank: 1 st
W	Financial Risks	23
B	Multiple Risks	14
B	Financial Limitations	13
W	Income Unpredictability and Market Volatility	10
P	Availability of Financial Resources	10
B	Market Instability	9
K	Financial Limitations	7
P	Lack of Profitability	5
P	Unstable and Inconsistent Markets	4

Location	Suggested Barrier for Sheep Flock Expansion: Availability of Land and Infrastructure	Total Score: 61 Rank: 2nd
W	Lack of Infrastructure	18
W	Availability of Land	12
B	Lack of Infrastructure	12
P	Insufficient Infrastructure	11
K	Lacking Farm Infrastructure	6
K	Available Land Base	2

Location	Suggested Barrier for Sheep Flock Expansion: Production Issues	Total Score: 48 Rank: 3rd
W	Access to Quality Breeding Stock	17
P	Production Issues	10
B	Available Breeding Stock	10
P	Lack of Available Breeding Stock	10
K	Seed Stock Supply	1

Location	Suggested Barrier for Sheep Flock Expansion: Human Resources	Total Score: 37 Rank: 4th
P	Human Resources and Succession	9
B	Limited Workforce	9
W	Skilled Labour	8
P	Lack of Education and Motivation	5
K	Labour	4
K	Risk Management	2

Location	Suggested Barrier for Sheep Flock Expansion: External Forces	Total Score: 21 Rank: 5 th
W	Industry Collaboration	13
K	Processing Capacity	5
W	Excessive Regulations	3

Merits or Positives that Exist for the Current Financing Options for Flock Expansion

These may be strengths (any factors or conditions that are considered positive and over which we have some control, e.g., skills, expertise, involvement, etc.) or opportunities (any factors or conditions that are considered positive, over which we have little or no control but may be seized by ourselves or others, e.g., demographics, funding, political timing, etc.).

Participants identified and prioritized the merits or positives that exist for the current financing options for flock expansion. The merits identified and prioritized at each location have been clustered for the purpose of this summary report. The supporting information for each cluster is shown below the summary table.

Rank	Summary of Merits that Exist for the Current Financing Options for Flock Expansion	Total Score
1 st	Favourable Interest Rates, Terms and Conditions	61
2 nd	Stakeholder Engagement	35
3 rd	External Support	30
4 th	Lenders Show Interest	15

Supporting Information:

Location	Merit for the Financing Options for Flock Expansion: Favourable Interest Rates, Terms and Conditions	Total Score: 61 Rank: 1st
B	Low Interest Rates	18
P	Favourable Interest Rates	16
W	Low Interest Rates	13
P	Positive Terms and Conditions	8
K	Reasonable Interest Rates	6

Location	Merit for the Financing Options for Flock Expansion: Stakeholder Engagement	Total Score: 35 Rank: 2nd
W	Good Planning is Rewarded with Financing	14
W	Stakeholder Engagement	11
B	Positive Opportunities	8
W	Low Barriers to Entry	2

Location	Merit for the Financing Options for Flock Expansion: External Support	Total Score: 30 Rank: 3rd
W	Market Expansion Strength	14
P	Industry Support and Engagement	9
P	Government Support	7

Location	Merit for the Financing Options for Flock Expansion :	Total Score: 15
	Lenders Show Interest	Rank: 4 th
K	Farm Credit Corporation Financing is Available	7
B	Lenders Show Interest	4
K	Bank Financing is Available	3
P	Support of Financial Institutions	1

Challenges that Exist for the Current Financing Options for Flock Expansion

These may be either weaknesses (any factors or conditions that are considered negative and over which we have some control, e.g., inactivity, lack of direction, lack of producer support, etc.) or threats (any factors or conditions that could negatively impact us, over which we have little or no control, e.g., political climate, municipal, national or world conditions, etc.).

Participants identified and prioritized the challenges that exist for the current financing options for flock expansion. The challenges identified and prioritized at each location have been clustered for the purposes of this summary report. The supporting information for each cluster is shown below the summary table.

Rank	Summary of Challenges that Exist for the Current Financing Options for Flock Expansion	Total Score
1 st	Financial Risks	94
2 nd	Meeting Lenders' Requirements	44
3 rd	Stakeholder Engagement	41
4 th	Market and Entry Risks	26

Supporting Information:

Location	Challenge for the Current Financing Options for Flock Expansion: Financial Risks	Total Score: 94 Rank: 1st
W	Lack of Available Templates	23
W	Market Variability	21
W	Potential Increase in Interest Rates	13
P	Financial Success	11
B	Inherent Risks of Our Sector	10
K	Risk Limitations	9
B	Difficulty to Support Strong Business Plans	6
B	Instability of the Economy	1

Location	Challenge for the Current Financing Options for Flock Expansion: Meeting Lenders' Requirements	Total Score: 44 Rank: 2nd
B	Meeting Lenders' Requirements	17
W	Lending Based on Equity	14
W	Linking Production to Financing	9
K	Justifying Sector Realities and our Plans for Lenders	4

Location	Challenge for the Current Financing Options for Flock Expansion: Stakeholder Engagement	Total Score: 41 Rank: 3 rd
W	Lack of Stakeholder Engagement	24
P	Inefficient Use of Resources	6
P	Succession Planning	5
P	Striving for Satisfaction	3
K	Competition With Other Jurisdictions	2
P	Primary Career and Income Source	1

Location	Challenge for the Current Financing Options for Flock Expansion: Market and Entry Risks	Total Score: 26 Rank: 4 th
P	Market Potential	13
B	Barriers to Entry or Expansion for Younger Producers	13

Potential Actions

There are many actions that could help strengthen financing options for sheep producers to ensure that there are strong and viable financing options for sheep flock expansion. These actions should build on the motivators and merits as well as reduce or eliminate the barriers and challenges.

Participants identified and prioritized potential actions for sheep producers to ensure that there are strong and viable financing options for sheep flock expansion. The actions identified and prioritized at each location have been clustered for the purposes of this summary report. The supporting information for each cluster is shown below the summary table.

Rank	Key Areas of Focus to Ensure Viable Financing Options for Sheep Flock Expansion	Total Score
1 st	Ensure Favourable Terms and Conditions	1905
2 nd	Engage Key Stakeholders	1145
3 rd T	Establish New Financial Initiatives	1075
3 rd T	Improve Production Efficiencies	1075
5 th	Target Expanding Markets	195

Supporting Information:

Location	Key Area of Focus to Ensure Viable Financing Options for Sheep Flock Expansion: Ensure Favourable Terms and Conditions	Total Score: 1905 Rank: 1 st
W	Aim for Favourable Terms and Conditions	380
W	Identify Realistic Lending Criteria	370
B	Ensure Reasonable Financial Terms and Conditions	345
P	Allow Flexible Use of Funding	235
P	Implement Practical Program Details	210
K	Ensure Desirable Program Details	170
P	Provide Realistic Collateral Requirement	140
K	Set Up Central Administration	55

Location	Key Area of Focus to Ensure Viable Financing Options for Sheep Flock Expansion: Engage Key Stakeholders	Total Score: 1175 Rank: 2nd
B	Establish Workable Business Plans	260
B	Ensure Efficient Industry Collaboration	240
P	Educate Lenders, Government and Politicians	175
P	Ensure Producer Education	170
W	Offer Stakeholder Education	115
K	Educate Stakeholders on Existing and Potential Opportunities	100
W	Offer Producer Education	85

Location	Key Area of Focus to Ensure Viable Financing Options for Sheep Flock Expansion: Establish New Financial Initiatives	Total Score: 1075 Rank: 3rd
W	Emphasize Simplicity for Program Success	300
B	Create Positive Financial Options for New and Young Producers	195
B	Establish Loan Guarantee Program with User-Friendly Features	180
B	Implement New Program Ideas	160
K	Increase Financing Capacity	150
W	Support Industry Expansion	90

Location	Key Area of Focus to Ensure Viable Financing Options for Sheep Flock Expansion: Improve Production Efficiencies	Total Score: 1075 Rank: 3 rd T
W	Improve Access to Production Tools	280
W	Increase Production Efficiencies	270
B	Promote Strong Flock Management	250
P	Integrate Healthy Breeding Stock and Financial Programs	150
K	Link Production Efficiencies to Financial Programs	105
K	Ensure Availability of Quality Inputs	20

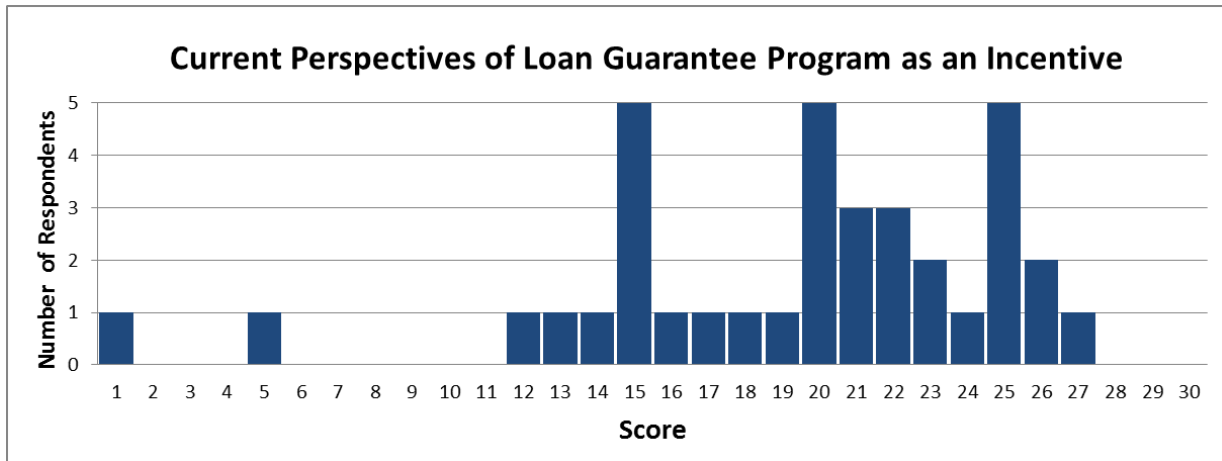
Location	Key Areas of Focus to Ensure Viable Financing Options for Sheep Flock Expansion: Target Expanding Markets	Total Score: 195 Rank: 5 th
P	Encourage Market Stability	135
W	Exploit Growth and the Emerging Markets	60

Loan Guarantee Program as an Incentive

On ballots numbered from 1 to 30, participants chose a number that they feel most accurately describes producers' view of a loan guarantee program as an incentive to expand their flocks.

#30 = "Top of our Game": An effective loan guarantee program with reasonable requirements would be a prime motivator for producers to consider a flock expansion.

#1 = "Dead in the Water": An effective loan guarantee programs with reasonable requirements would have very little, if any, motivational impact on producers to consider a flock expansion.

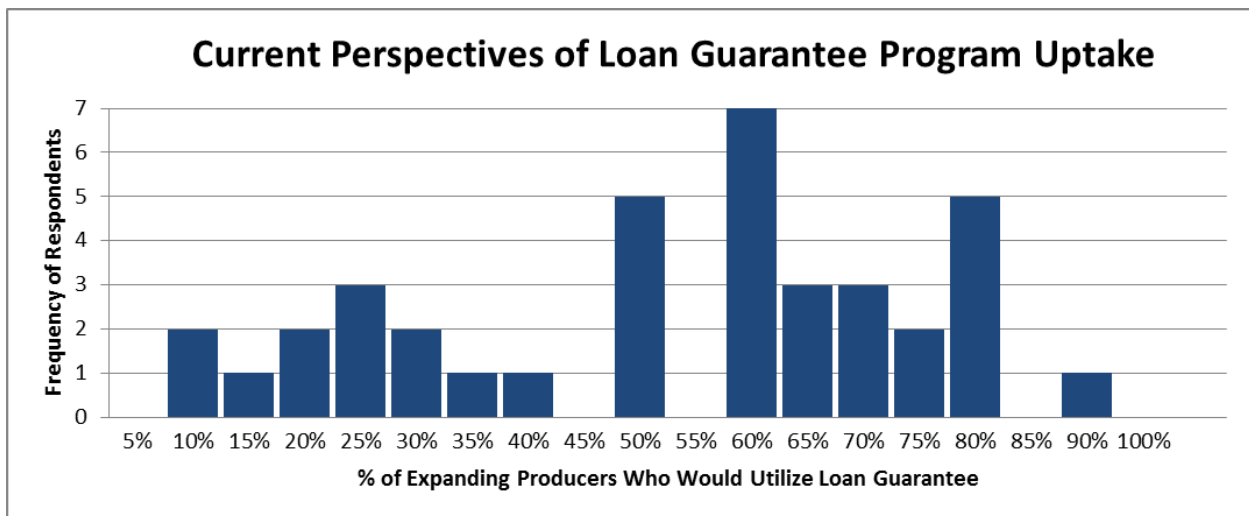


Average = 19.25

Participants shared the factors that pushed their number up or down the scale. In general, they related to the motivators and barriers of flock expansion as well as the merits and challenges relating to the financing options for flock expansion. All the individual rationale shared is recorded in the detailed report from each focus group location.

Loan Guarantee Program Uptake

Participants were asked, “What percentage of sheep producers *who were planning on a flock expansion* would utilize a loan guarantee program?”



Average = 52.16%

Participants shared why they chose their specific percentage.

1) The following are some of the characteristics that participants attributed to those producers who would be most likely to utilize the loan guarantee.

Producers who:

- have a specific need met by this program
- are early in their career as a sheep producer
- find it easier to access than bank financing
- find it a great way to expand with less risk
- appreciate the reduced cost for similar loans
- welcome the concept of having two or more providers of capital
- find the program makes perfect sense now that they have decided to expand
- see this program as the final link in the expansion chain
- see this program as making strong economic sense
- want to utilize this well-planned and effectively implemented program
- find it is an easier application process
- see the terms as better than terms offered by other lenders
- are looking for a good way to increase flock size to be sustainable
- feels the flexibility of the terms and conditions are desirable
- responded to the effective promotion of the program
- find the program helps meet a lifestyle or farm goal
- see this is an easy business choice
- think the program has excellent potential

2) The following are some of the characteristics that participants attributed to those who would be least likely to utilize the loan guarantee.

Producers who:

- have better financing options
- would need to know more details before they would make a decision
- would not like the requirements of the program
- have a strong level of experience and business management expertise
- already have a strong relationship with their lender
- want to avoid the risk of an open flock and increasing disease exposure
- want to expand at a slow and steady rate
- are concerned with paperwork and lack of awareness of the program
- are a reasonable credit risk and find bank borrowing is easy today
- are using their own money and do not need a loan
- have possible religious reasons not to use the program
- do not handle debt well and do not want to take on more loans

- find off-farm income would be less risky than the loan guarantee
- are reluctant to engage in a new program but would rather wait and see how it works
- are not really enthused or engaged in the sheep industry
- feel there are so many other variables that influence the decision to expand
- find that sheep are not that large of an investment
- are not willing to share risk with other producers

Summary of the Workshops

The focus group workshops were productive events, where the participants were very engaged. Through their valued input, the producers present took an important step to help ensure strong and viable financing options for sheep flock expansion in Ontario.

Appendix 6

References

General Information

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Agricultural Credit Corporation, Advance Payments Program, Ontario Administration

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Australia and New Zealand Banking Group Limited, The Sheep's Back, Infocus 2016

Appendix 7

Persons Consulted

Lenders

Ron Anderson, Scotiabank. Senior Client Relationship Manager & Team Lead, Commercial Banking, Ontario Southwest Agriculture

Pierre Robitaille, Scotiabank. Director & Group Lead

Mary Lou McCutcheon, Royal Bank. VP - Southwestern Ontario Agriculture

Adam Vervoort, BMO Bank of Montreal. National Manager, Agriculture

Jason Emke, Farm Credit Corporation. Relationship Manager

Tony Morris, Meridian. Senior Relationship Manager, Agriculture

Farm Business Management and Advisory

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John Anderson, Collins Barrow

Industry

Matt Gibney, Cargill Meat Solutions. Operations Manager, Guelph

Livestock Loan and Finance Program Administrators

Cheryl Russworm, Beef Farmers of Ontario. Provincial Supervisor, Ontario Beef Feeder and Breeder Loan Programs

Bill Hoar, Agriculture Financial Services Corporation, Alberta. Western Livestock Price Insurance Program

Jaye Atkins, Agricultural Credit Corporation

Government

David Hagarty, OMAFRA. Director Farm Business Programs Branch. And numerous staff.

Delma Kennedy, OMAFRA. Sheep Specialist

Christoph Wand, OMAFRA. Livestock Sustainability Specialist

Matthew Doucette, AAFC. Assistant Director, Finance & Programs Analysis

Rosser Lloyd, AAFC. Director General, Programs Branch

Bruce Stephen, AAFC. Director, AgriRisk Initiatives

Other

Alphons Weersink, University of Guelph. FARE

Alan Ker, University of Guelph. FARE, Development of a Web-based Price Predictability Tool

Martin Gooch, Martin Gooch and Associates. Growth Strategy for Ontario's Sheep Industry

Anita O'Brien, OSMA. On-farm Program Lead

Jean-Philippe Deschenes-Gilbert, Les Producteurs de bovins du Quebec. General Manager

Appendix 8

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Lindy Gilson, Administrator, BC Breeder Associations

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Joe Kuhar, feederassoc.com

Dace Cochlan, Provincial Supervisor, Feeder Associations, Alberta Agriculture

Dale F Engstrom, P.Ag., Lake Isle, AB

Western Cash Advance Program Inc., feederassoc.com

Bill Hoar, Product Owner, Western Livestock Price Insurance Program, wlpip.ca

Gordon Schroeder, Executive Director, Saskatchewan Sheep Development Board, sksheep.com

Saskatchewan Livestock Loan Guarantee Program, saskatchewan.ca

Nicole Krips, Provincial Supervisor, Livestock Loan Guarantee Program and Judy MacMillan, Sheep Expert, Saskatchewan Ministry of Agriculture, Saskatchewan.ca

Manitoba Beef Producers, mbbeef.ca

Kevin Craig, Vice President Lending Operations, Manitoba Agricultural Services Corporation, masc.mb.ca

Kendra Bouw, Prairie Gold Breeder Cooperative

Manitoba Livestock Cash Advance Inc., manitobalivestock.com

Canadian Canola Growers Association, ccga.ca

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Beef Farmers of Ontario, ontariobeef.com

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Ministere de l'agriculture, pecheries et alimentation du Quebec, mapaq.gouv.qc.ca

La financiere agricole du Quebec, fadq.qc.ca

Les producteurs de bovins du Quebec, bovins.qc.ca

NB Livestock Genetic Enhancement Program, gnb.ca

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Agri-Commodity Management Association, agri-commodity.ca

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Nova Scotia Agriculture, novascotia.ca

Paul Arnfast, Loan Officer Nova Scotia Farm Loan Board, novascotia.ca

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