

Cost Estimate of Election Campaign Proposal

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Short title: Farm and Food Development Canada

Description: Create Farm and Food Development Canada, which will combine the financing and advisory services currently provided to agri-businesses at Farm Credit Canada (FCC), Export Development Canada (EDC) and Bank Development Canada (BDC). The Farm and Food Development Canada would also increase capital lending provided to agri-businesses by up to \$5 billion per year. Any revenue from the measure will be re-invested in related measures to support farmers.

Operating line(s): Other revenues

Data sources:	<u>Variable</u>	<u>Source</u>
	Earning assets	FCC annual reports
	Interest rate on assets	FCC annual reports
	Total interest-bearing liabilities	FCC annual reports
	Interest rate on liabilities	FCC annual reports
	Net interest income	FCC annual reports
	Allowance for credit losses	FCC annual reports
	Operating and administrative expenses	BDC and EDC annual reports
	EDC and BDC agriculture and agri-food exposure	Non-public government of Canada data

Estimation and projection method: FCC will be fully merged into Farm and Food Development Canada, along with related agribusiness activities at EDC and BDC. Administration costs would be identical to those of FCC, except for the incremental costs to administer activities currently done by EDC and BDC. Incremental administration costs are proportionate to EDC and BDC's relative exposures to the agriculture and agri-food industries and total administration costs.

PBO projects that the Farm and Food Development Canada will generate net interest income on the additional \$5 billion in capital lending to food and agricultural businesses. Farm and Food Development Canada's net interest income is calculated as gross interest income generated on Farm and Food Development Canada lending less the interest costs on \$5 billion annual borrowing, adjusted for expected credit losses on financial assets.

PBO projected Farm and Food Development Canada's net interest income and credit losses based on FCC's historical net interest margins and credit loss ratios.

Uncertainty
assessment:

The estimate has moderate uncertainty. The uncertainty is inherent in the projected annual additional assets and liabilities and the estimated administrative expenses of the Farm and Food Development Canada creation.

Cost of proposed measure

\$ millions	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
Total cost	-	-64	-58	-52	-46	-41	-35	-29	-23	-17

Supplementary information

	Operating line	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
Net interest income after provision for the credit losses	Other revenues	-	-100	-96	-91	-87	-82	-78	-74	-69	-65
Administrative costs	Other revenues	-	36	37	39	40	42	43	45	46	48
Total net cost	Other revenues	-	-64	-58	-52	-46	-41	-35	-29	-23	-17

Notes:

Estimates are presented on an accruals basis as would appear in the budget and public accounts. Totals may not add due to rounding.

Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.

"-" = PBO does not expect a financial cost