

Chapter 24

The Canadian Adaptation and Rural Development Fund

An Example of Involving
Others in Governing

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The Canadian Adaptation and Rural Development Fund

An Example of Involving Others in Governing

Main Points

24.1 The Canadian Adaptation and Rural Development (CARD) fund is a new governance arrangement developed by Agriculture and Agri-Food Canada to help farmers, producers and processors adapt to the new business realities of farming. Under the arrangement, projects to support agricultural adaptation are selected largely by the agriculture industry for funding.

24.2 We found that a reasonable balance had been struck between giving industry councils the freedom to make the best decisions and respecting the public purpose of the funds. In designing this arrangement, the Department developed a number of good practices. However, we also found some areas that need to be improved.

24.3 In conjunction with the Department, we developed an instrument to assess the capabilities of the adaptation councils. Pilot results suggest that the CARD councils rate well in most of the required competencies. We determined that the instrument could be useful for assessing the capabilities of parties in this new governance arrangement and perhaps in others.

The Department accepts our findings and has committed to act on our recommendations, although no details have been provided.

Introduction

24.4 The business environment for farming has changed dramatically over the last several decades. The industry has had to adapt to reductions in government subsidies, changes in technology, growing concern about the environment, more competitive global markets, the decline of the rural population and other changes. In 1995, Agriculture and Agri-Food Canada introduced a strategy to assist in this adaptation, the Canadian Adaptation and Rural Development Strategy.

24.5 This strategy was designed to foster a growing, diversified, competitive sector and a healthy rural economy, and to help offset the impact of eliminating transportation support and reducing safety net subsidies. Further, in delivering this strategy the Department wished to design a package of programs that would respond to the government's objectives of bringing decision making closer to citizens, making government more cost-effective and involving the sector more directly in funding decisions. To pay for these programs, the Canadian Adaptation and Rural Development (CARD) fund was created.

24.6 Federal funds for the four-year CARD fund, about \$60 million annually, are shared between national and provincial applications. National programs receive \$35 million annually, while an annual allocation of \$25 million is administered by 13 provincial councils. National programs support initiatives that have potential benefits for Canadians in any province, while provincial councils support initiatives that are unique to specific regions and have been identified as priorities by those regions.

24.7 Each province has a council that represents the agriculture and agri-food industry. Funding for the councils is provided by federal grant. Council members in each province are representatives of the industry, and

include producers and agri-food processors in the province. Members of the council are selected either by industry vote or by federal appointment, depending on the province. The size of the council also varies by province. Both the federal and provincial governments are represented on the councils but do not have a vote. The federal government largely guided the design and development of the councils. Resources for administration are covered by the grants to the councils, although in some provinces the provincial government has contributed resources.

24.8 **CARD is a delegated arrangement.** Agriculture and Agri-Food Canada has delegated extensive decision-making authority to each council to determine where CARD funding should be directed to best serve the adaptation needs in its province. Councils decide on everything from strategic funding priorities (within policy bounds set by Agriculture and Agri-Food Canada) to approval of individual applications for project funding from CARD funds.

24.9 Representatives of the agri-food industry with an adaptation project can apply to the provincial council for funding of the project. The following are a few examples of the hundreds of projects partially funded within the adaptation priorities of this program:

- **Human resource development.** Youth conferences (for example, 4H); farm safety education (such as farm safety pamphlets for schools); and farm management conferences and skills training (conference on abandonment of rail lines, use of computer technology to improve operations, evaluation of value-added opportunities, leadership, management and strategic visioning).
- **Research and development.** Disease-resistant seed and more economical feed.
- **Infrastructure support.** Understanding and communicating

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benefits of and barriers to sustainable cropping practices.

- **Enhanced access to capital.**

Funding of business plans and market feasibility studies.

- **Improved market information and utilization.** New products, including fruit chips, byproducts, organic products, and hemp oil.

24.10 Approval was given for the second phase of CARD, known as CARD II, beginning 1 April 1999. Annual funding will continue at \$60 million. Further, the government has approved CARD as an ongoing program of the Department.

Evolution and design of industry councils

24.11 Agriculture and Agri-Food Canada considers the use of industry councils to be an important innovation in its delivery of adaptation programs. A number of factors led to its decision to experiment with using them to provide programs. At the time that CARD was created, the government of the day was particularly interested in alternative ways to make decisions. This program allowed industry to decide how it could best be helped to adapt to change. The Department hoped this would result in better decisions and would increase the

support and involvement of industry. As well, giving industry more responsibility for decisions reflected the program's objective of increasing industry's ability to adapt and become more self-reliant.

24.12 Exhibit 24.1 summarizes some of the comments made by the Minister and the provincial council chairs about the creation of the councils.

24.13 The councils are using public funds that have a specific public purpose. Although the Minister of Agriculture remains accountable to Parliament for the expenditure of these funds, there are no conditions attached to them because they are in the form of grants. The Department recognized the importance of providing for accountability mechanisms, so it developed a number of objectives, principles, guidelines and criteria that the councils are required to respect and include in their by-laws. The Department also developed a performance management framework that the councils are required to use to measure and report on their performance.

Focus of the audit

24.14 This audit focussed on the mechanisms the Department included in the design and development of the provincial councils to ensure adequate accountability and control of federal funds. We conducted our examination at Agriculture and Agri-Food Canada and at three of the provincial councils. Specifically, we examined the framework governing arrangements between the federal government and the provincial councils.

Observations and Recommendations

24.15 For the most part, we found that the controls the Department has developed for the arrangement were appropriate to ensure an adequate governing framework. Those that we consider good practices are

Exhibit 24.1

Minister's and Provincial Council Chairs' Comments

What the Minister said: "I am pleased that industry groups have so enthusiastically pooled their expertise and experience to form these councils. This groundbreaking initiative demonstrates how producer organizations are determined to take charge of their future and to build a more innovative and prosperous rural economy."

What two councils said: "This council represents a unique partnership based on the belief that farm and rural organizations have the knowledge and ability to help determine the most effective allocation of government funds."

"The council was established by all rural industry players to facilitate adaptation to the new realities and challenges ahead, thereby fostering a dynamic approach within agriculture in the province."

summarized in Exhibit 24.2. Some of the gaps in reporting, accountability mechanisms, transparency and protection of the public interest noted in Chapter 23 (paragraphs 23.85 through 23.116) we also noted in CARD; for example, the Department has not required specific provisions for conflict-of-interest codes, public service values and citizen redress mechanisms. These weaknesses are mitigated to some extent by the practices noted in Exhibit 24.2.

Councils require more guidance

24.16 Guidance from the Department could be improved to ensure better and more consistent decision making across councils. Guidance does not mean more control and it does not need to be prescriptive. The kind of guidance the councils need could include the logic underlying the objectives, principles, guidelines and criteria the Department has established, or more detailed definitions that support them. For example, “normal commercial operations” cannot be funded under CARD. Some councils have had difficulty identifying what this term was intended to mean. More guidance from the Department on the logic behind this restriction would help to ensure that interpretation is consistent. Providing information on best practices and encouraging greater sharing of information and learning among councils could also be a way for the Department to help the councils operate effectively and efficiently. This sharing would allow councils to capitalize on the experience of the Department and other councils, rather than “reinventing the wheel” each time there is an operational challenge. For example, sharing the lessons learned from using royalties and loan guarantees as a means for a council to provide funding to a project would help those councils that have no experience using such arrangements. Council members confirmed the desire for more guidance and greater sharing of this kind.

24.17 Agriculture and Agri-Food Canada should provide further guidance to the councils, in particular by defining and presenting the logic underlying the objectives, principles, guidelines and criteria established by the Department. It should also work with the councils to develop better means of sharing experience and good practices.

The next step in performance management is better public and parliamentary reporting

24.18 The Department requires the councils to report annually on the performance of funded projects in accordance with the CARD performance management framework. Using the results of this reporting, the Department completes a central aggregation of performance management data in a national project database. While the Department has reported some performance information on CARD in the Departmental Performance Report, it has yet to make extensive use of the performance information gathered as part of the performance management framework. The challenge will be to summarize this concisely in the Departmental Performance Report with references to where more detailed performance information can be found.

- Involvement of federal ex officio member on provincial councils
- Eligibility requirement that councils incorporate the objectives, principles, guidelines and criteria of the government into the council by-laws
- Requirement for councils to annually report on performance of funded projects in accordance with the Department's performance management framework
- Central aggregation of performance management data in a national project database

Guidance from the Department could be improved to ensure better and more consistent decision making across councils.

Exhibit 24.2

Good Practices

It is important that both the Department and the councils consider long-term strategies.

24.19 The Department should implement better means of ensuring that parliamentarians and the public have access to performance information collected by the program.

Strategy needed for long-term relationship with councils

24.20 Due to the experimental nature of these councils, original funding was limited to four years and the government's approval would be required for continuation of the program. Recently, the government approved a second phase of CARD that establishes it as an ongoing program of the Department. This makes it important that both the Department and the councils consider long-term strategies. Since there could be economies of scale if

the use of the councils were expanded, the Department may want to assess the merits of using the councils to administer other departmental programs. Conversely, the councils may want to attract other sources of funding. In these circumstances, it is important that both parties agree on the nature of the relationship between them. At the present time, there is no formal agreement on whether councils can continue to be eligible for funding from CARD if they arrange for funding from other sources. Nor is there any formal agreement on how disputes will be settled on this or any other issue.

24.21 The Department should consider and formalize a long-term strategy for its relationship with councils, including considering the

Exhibit 24.3

Assessing the Capabilities of a New Governance Arrangement

Agriculture and Agri-Food Canada has been using informal means to assess the capabilities of the Canadian Adaptation and Rural Development (CARD) councils. A departmental official assigned to each council attends council meetings as an ex officio, non-voting member. These officials have been able to form first-hand impressions of the strengths and weaknesses of their councils, but their impressions have not usually been captured and reported.

In conjunction with Agriculture and Agri-Food Canada, we developed an instrument for assessing the capabilities of adaptation councils. We did this to determine whether a more systematic process could prove to be a useful tool for monitoring this new governance arrangement and potentially others. The tool was then piloted with three of the councils.

Capabilities assessment tools are useful in the monitoring of new governance arrangements

Councils that took part in the pilot found the capability assessment tool to be useful. They reported that the results painted an accurate picture of the strengths and weaknesses of their councils. Some took immediate action to strengthen areas the assessment identified as needing improvement. Several councils that were not part of the pilot project have expressed an interest in using the tool.

We concluded that the tool could be used in other new governance arrangements, with minimal modification. Although this tool appears to be a valid and reliable means of assessing council capabilities, it is possible that other, superior tools could be developed.

The capability model could be used in a variety of ways. It could reflect perceptions only, or be augmented by gathering corroborative evidence. It could be used by auditors or other external assessors, or the assessments could be completed by the federal government's partners in new governance arrangements and reported to the federal government. In the latter case, the credibility of the report could be enhanced by having a third party attest to the fairness of the information. As another alternative, assessments using the tool could be completed by the federal ex officio members of the councils alone and the results used internally by the government. And finally, by having users of the program complete parts of the assessment, this tool could be used to measure the extent to which the existing capabilities allow the council structure to meet the users' needs.

Because the success of new governance arrangements depends heavily on the capabilities of partners outside the federal government, capability assessments have a potentially valuable role. Knowledge of the capabilities of an outside organization should be a key consideration in deciding whether to involve it in a new governance arrangement and whether to continue that involvement thereafter. This information can equally help these organizations, by diagnosing strengths and weaknesses, to improve their capabilities and improve the success of their arrangements with the federal government.

merits of using the councils to deliver other programs.

Assessment tool results suggest good governance

24.22 The councils have been given considerable responsibility for decision making. Because the success of this program depends greatly on the councils' capabilities, it is important that they be assessed regularly. At the start of our audit, the Department had not developed a formal means to do this.

24.23 We undertook a project, in conjunction with the Department, to develop an instrument for assessing the capabilities of the councils (see Exhibit 24.3). For this project, 18 specific competencies required of CARD councils were identified. Questions were developed on each of the 18 required competencies to determine whether they were present in each council.

24.24 The completed capabilities assessment tool was then piloted in three CARD councils that volunteered for the pilot. Information was gathered through individual interviews with council members, council staff and federal ex officio members. The results were compiled and the capabilities of the three pilot CARD councils were compared with research data gathered by the Conference Board of Canada over several decades on the capabilities of private and public sector boards of directors. Because participants answered the questions from their own experience, the results reflect perceptions only.

24.25 Pilot assessment results suggest that CARD councils are generally strong, with some areas that need improvement. Members view their councils as generally well governed. Federal ex officio members and the councils' staffs essentially concur in the assessment of the strengths of the councils overall, with some modest differences of opinion on specific strengths and weaknesses.

24.26 There was considerable similarity among councils in their capabilities. They demonstrated strong performance in 8 of the 18 capabilities, rated fairly well in another 7, and would benefit from improvement in 3 others (see Exhibit 24.4). Further, given that the CARD councils were created quite recently, they compared favourably with established benchmarks for Canadian private and public sector boards of directors.

24.27 The results of the project suggest that the Department could find this or a similar tool useful in regularly assessing council capabilities.

24.28 **The Department should incorporate the use of a capabilities assessment tool in its monitoring of program delivery by Canadian Adaptation and Rural Development councils.**

Conclusion

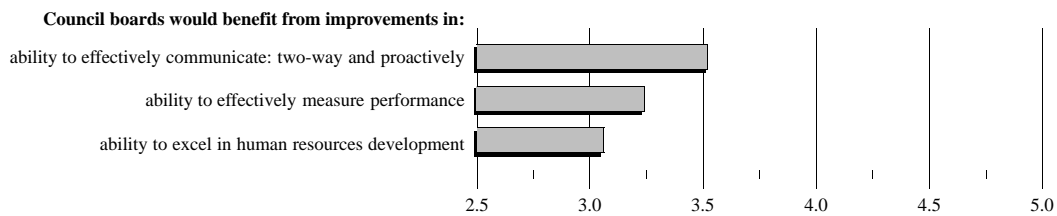
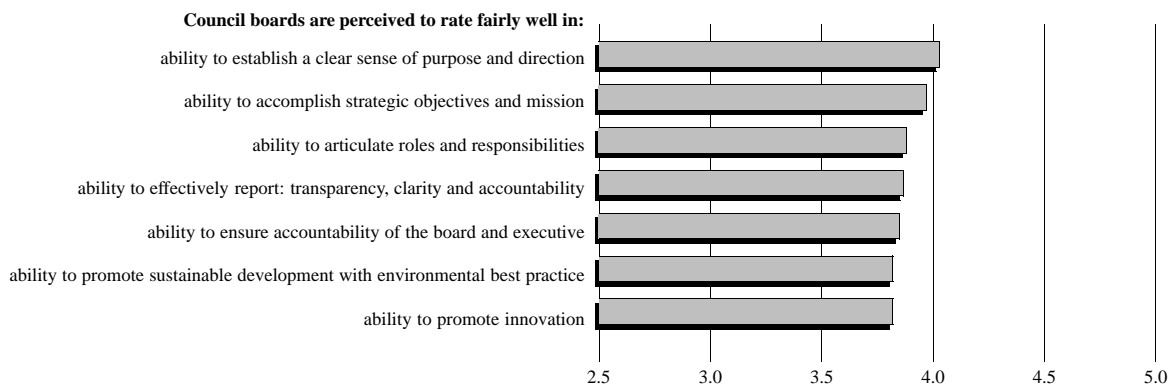
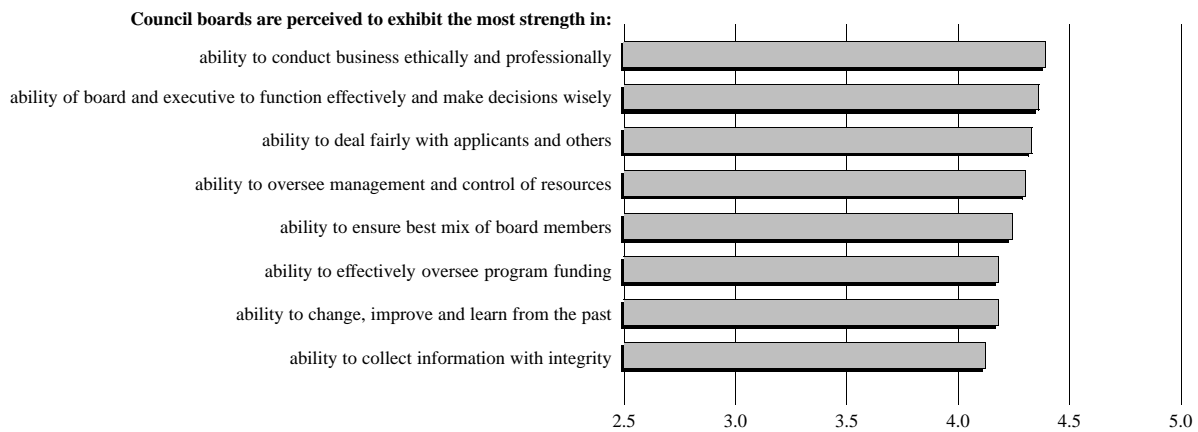
24.29 Notwithstanding the concerns noted above, we found that a reasonable balance has been struck between giving the industry councils freedom to make the best decisions and respecting the public purpose of the funds. The refinements to the program that we have recommended, and the recommendations in Chapter 23 that apply to all new governance arrangements, would provide additional comfort to the Department in its accountability role and should help to ensure the long-term success of the arrangements. It is important that the Department be cognizant of any additional administrative burden they might add.

24.30 Results of the capability assessment indicate that there is a great deal of competence and enthusiasm within the councils. The success of this program can, in part, be attributed to these factors. However, it is possible that once the excitement surrounding the program begins to wane, the momentum of success will also wane. Where interpretation of federal requirements is needed, councils

The results of applying the assessment tool suggest that the Department could find this or a similar tool useful in regularly assessing council capabilities.

Exhibit 24.4

Key Findings About Council Capabilities Through Interviews



Mean score of all respondents on questions related to each of the above capabilities, using the following scale:

- 0 – Not at all; nothing being done in this area
- 1 – Not well; improvement definitely needed
- 2 – Somewhat; improvement required
- 3 – Moderately well; satisfactory
- 4 – Quite well
- 5 – Very well; no improvement required

have been careful to ensure that they err on the side of the federal government. Over time, this could change. For this reason, it is important that the tools and guidance provided by the Department be adequate to support continued success.

Department's response: *The Department is proud of the CARD program and pleased that the Auditor General recognizes, in this separate chapter, the*

valuable contribution of the provincial councils and the good practices that contribute to this successful arrangement. We welcome the Auditor General's suggested refinements and will address them in our continuing efforts to improve this worthwhile initiative. We would also like to thank the councils who participated in the audit for their valuable contribution.



About the Audit

Objective

The objective of this audit was to assess the adequacy of the accountability and control arrangements established by Agriculture and Agri-Food Canada for provincial adaptation councils with whom it has arrangements for the delivery of the Canadian Adaptation and Rural Development (CARD) fund.

Scope

Our audit focussed on Agriculture and Agri-Food Canada, which designed the governing framework of the provincial adaptation councils that deliver CARD programming. While our Office did some work on the councils, as entities independent of the federal government they were not subject to our audit.

In parallel with the audit, this Office and Agriculture and Agri-Food Canada established a study project to develop and pilot a tool for assessing the capabilities of the provincial adaptation councils.

Criteria

In addition to the criteria for the audit of new governance arrangements in Chapter 23, Involving Others in Governing, one separate criterion was applied. Namely, we expected that the Department would provide guidance and direction to the councils to ensure that objectives are met.

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