CANADA MILLENNIUM SCHOLARSHIP FOUNDATION:
EVALUATION OF THE FOUNDATION'S PERFORMANCE, 1998-2002

Institute of Intergovernmental Relations
Queen's University, Kingston, Ontario

MAY 30, 2003

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CONTENTS

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EXECUTIVE SUMMARY

INTRODUCTION AND PURPOSE

The Canada Millennium Scholarship Foundation (CMSF) was established by the Government of Canada in order to broaden access to post-secondary education. In 1998, the government endowed the Foundation with $2.5 billion, planned a ten-year life for the Foundation and mandated that the endowment be spent over those ten years. The money was to be expended mainly on scholarships for post-secondary students who were both needy and meritorious. Ninety-five percent of the awards distributed by the Foundation are made available through its Millennium Bursary Program which serves students who satisfy these criteria. In addition, the Excellence Award Program distributes the remaining 5 percent of CMSF awards on the basis of academic merit, leadership and community involvement. Each year since 2000, the CMSF has awarded about 90,000 needs-based bursaries with an average value slightly above $3,000. In addition, about 900 merit-based CMSF Excellence Awards, with an average value of over $4,000, are awarded each year.

Our evaluation of the Canada Millennium Scholarship Foundation (CMSF) has been heavily influenced by two mandates. The first is the mandate given the Foundation by the federal government and the second is the mandate given us, as evaluators, by the Foundation.

The mandate of the CMSF arises from three sources. The first is the federal legislation that created it – Part 1 of Bill C-36, *The Budget Implementation Act, 1998*. The second is a set of political commitments made outside the formal legislation. These included statements to Parliament by then-Finance Minister Paul Martin in the 1998 budget speech and a press release issued by the federal government when its negotiations with Québec, concerning the operations of the CMSF in that province, broke down temporarily in May 1998. The third source of the CMSF mandate is an agreement signed between the CMSF and the federal government that regulates the financial management activities of the Foundation. As our evaluation makes clear, the various elements of the Foundation's mandate not only gave to it the authority and tools to act but also constrained it in various ways.

The federal legislation that created the CMSF requires that the Foundation cause a review and report to be made of its activities and organization between the fourth and fifth anniversary of its creation. Charged with undertaking this review, our study team has examined, as best we could within the financial and temporal constraints of the evaluation, the Foundation's activities since its creation in 1998. We were asked to assess the Foundation's performance within its mandate while avoiding commentary on the mandate itself.

The Foundation provided us with a preliminary list of its goals and of the activities it felt it was required to undertake. We were to comment on the extent to which the Foundation had met the goals or undertaken the mandated activities. In addition, we were free to address any other questions we deemed relevant.

The study team dealt with five sets of issues:

:: governance and administration;
:: relations between the Foundation and the provinces and territories;
:: the effects of the CMSF on post-secondary access;
:: the financial performance of the Foundation;
:: data collection and reporting.

GOVERNANCE AND ADMINISTRATION

We began this work by examining and evaluating the rather unique governance structure of the CMSF and then took up three sets of questions related to specific governance and administrative activities.

As an institution, the CMSF is quite unusual. Although almost all of its resources were given to it by the federal government, it is an independent private not-for-profit corporation. It need not follow government instructions other than those specified in the legislation that created it. In creating the CMSF, Parliament provided for the existence of what are called "Members". Members are intended to play a role akin to shareholders in a private for-profit corporation. The first six Members were appointed by the Governor in Council and these six chose another nine. Just as shareholders are supposed to make sure that for-profit firms adhere to the goal of maximizing profit, CMSF Members were supposed to hold the Foundation accountable for increasing post-secondary access.

The "accountability" of the Foundation was addressed in answering the first set of specific questions studied by the evaluation team. The CMSF has complied substantively with the requirements the legislation sets out. Services are provided in both official languages, ample information is provided to stakeholders, meetings are convened and reports are filed – all as required. Whether the governance structure enables the CMSF to be held accountable in a broader sense – that it is held responsible for the discharge of the mission for which it was established – is less clear. Interviews of Members and with Foundation officials, past and present, suggest that Members appear to be playing a diminishing role as "proxy shareholders" and that the effectiveness of Members in ensuring the Foundation's accountability in a broader sense has declined over time and is now essentially *pro forma*. This view, however, is disputed by some of the original Members who believe that the Members play a clear and important role.

The second set of questions taken up by the governance and administration team dealt with whether the unique structure of the Foundation positively affected its performance – including its willingness to innovate and its flexibility.

The Foundation seems to be an innovative organization. Following the rapid launch of its principal programs, it developed and implemented several new initiatives in succession. This evolution of the CMSF is characteristic of a learning organization – an organization capable of arriving at novel answers to problems, implementing them promptly and moving on to tackle new sets of issues. We believe that the pace of program development and implementation at the Foundation is one of the benefits of its independent corporate status and would have been difficult to achieve under government rules and regulations. At the same time, some of the new initiatives – such as the research program and the fund-raising efforts – have led a number of stakeholders to ask whether these new initiatives are consistent with the Foundation's mandate or whether there has there been "mandate creep".

The Foundation has shown its administrative flexibility by quickly coming to agreements with the provinces and territories that respect provincial and territorial jurisdiction and student financial assistance priorities. For example, because it works with and through provincial and territorial governments, the CMSF is able to use provincial criteria for determining student need for its bursaries. Such flexibility not only respects differences in priorities among provinces and territories but also helps secure their cooperation in integrating the provincial and Foundation aid programs. Notwithstanding this approach, some of the provincial officials interviewed felt that the Foundation had not been flexible enough in at least two ways: in pressuring provinces to accept agreements similar to the one signed between Alberta and the Foundation and in not recognizing the operational constraints of modifying student financial aid systems.

The administrative expenses of the Foundation appear to be low (although rising), relative to similar organizations, based on the limited comparisons that were possible within the constraints of this evaluation. This economy is achieved partly because the administration of the CMSF bursary program is integrated with provincial and territorial student aid programs. While provinces and territories receive a fee for these administrative services from the CMSF, there is some concern among some of the provinces that the compensation is inadequate to cover actual costs. In addition, the universities and colleges receive no compensation for incremental administrative costs they must absorb.

The last question concerning governance and administration that the study team tried to answer was whether students were aware of their eligibility for assistance and took advantage of the funds available. It found that, after an initial period during which there was a good deal of confusion, the Foundation has been successful, by and large, in communicating the nature of the assistance it offered. One potential issue is that interviewees at two-year colleges suggested that the criteria for the CSMF bursary awards favour university over college students because of the requirement that recipients successfully complete one term of their post-secondary program.

RELATIONS BETWEEN THE FOUNDATION AND THE PROVINCES AND TERRITORIES

In evaluating the CMSF, we recognized that close attention would have to be paid to the relationship between the Foundation, on the one hand, and the provinces and territories on the other.

The study team considered the extent to which the Foundation fulfilled "the public commitments made by the government of Canada with respect to the Foundation ... to respect provincial jurisdiction and student financial aid priorities." These "public commitments" included: (a) legislation that, for all intents and purposes, instructed the Foundation to enter into agreements with each province and territory in order to set the criteria for awarding its scholarships; (b) an instruction in the 1998 Budget Speech that the Foundation was to create a "partnership" with the provinces and territories; and (c) the public acknowledgement by the government that CMSF bursaries would create savings in provincial student financial aid programs.

In discussing relations with provinces and territories, it is perhaps worth recalling that the first announcement of this new bursary program attracted harsh criticism from a number of provinces, occurring as it did in the wake of the cuts in transfers to the provinces associated with the introduction of the Canada Health and Social Transfer (CHST). The decision of the federal government to set up an independent agency to manage the scholarship program was in part motivated by a desire to secure more provincial and territorial acceptance and cooperation than might have otherwise been possible. The Foundation had to overcome considerable provincial and territorial antipathy to meet the commitments mentioned above.

The Foundation concluded formal agreements with all ten provinces and three territories in the 1999 calendar year and the first Millennium Scholarships were awarded in January 2000. These agreements meet the requirements set out in the legislation governing the Foundation. For example, provinces and territories are allowed to select the recipients of the Millennium bursaries based on their own needs assessment criteria. Within certain guidelines, the provinces are also able to determine the value of the award made to each student. In addition, the agreements allow each province and territory to have potentially differing mechanisms for distributing the CMSF funds – using the Millennium bursaries to replace loans with grants or to increase the generosity of existing grant programs.

In announcing the creation of the Foundation in his 1998 budget speech, the federal minister of finance made it clear that the Government of Canada expected the Foundation to create "a partnership of parents, of educators, of the private sector, and of provincial and territorial governments."

A partnership may be understood as a union of parties to achieve common objectives. The idea entails cooperation among the parties, but does not necessarily preclude the possibility of occasional or even frequent conflicts. In this case, the Foundation brought money and a mandate to the table and provinces and territories brought experienced delivery systems. Each partner had something valuable to offer the other, they reached agreement and the program has been delivered in a professional manner since then. Thus, in an important respect, the Foundation has satisfied the instruction from the federal finance minister in relationship to creating a partnership with the provinces and territories.

At the same time, this working relationship involves some tensions. The Foundation describes itself as "province-friendly" with pride and confidence. But only three provinces described the Foundation as province-friendly. Three were neutral on the question although, at least for one of the three, the neutral rating was grudging. Four provinces were adamant that the Foundation was not province-friendly. Territorial officials were, on balance, satisfied with their relations with the Foundation.

Provincial relationships are crucial in a third area: the nature of the "reinvestment" of provincial savings that arise from the CMSF bursaries. The Government of Canada acknowledged the issue of such "reinvestment" in the course of its negotiations with Québec:

The Millennium scholarships could provide the Government of Québec with significant room to manoeuvre, given that these scholarships would take care of some of the needs of students which are now provided by a Québec government bursary. The scholarships could enable the Government of Québec to reinvest sums of money thereby saved in funding post-secondary education. Neither the Government of Québec nor the Millennium Foundation will decide how the Government of Québec should reinvest the savings it might realize.

This statement certainly acknowledged the existence of provincial savings and the consequent possibility of their reinvestment. Yet the statement is ambiguous as to the nature of the reinvestment. It can be interpreted as allowing free rein for reinvestment, as suggesting reinvestment in the broad area of post-secondary education or as suggesting expenditures in the narrow area of student financial aid.

To deal with this issue, the CMSF opted to pursue side agreements with the provinces. These agreements vary in their scope and specificity. Nonetheless, in its press releases concerning the agreements, the Foundation estimated the magnitude of the savings and declared that the provinces would reinvest the stated amounts "for the benefit of students." Among the provinces, however, only British Columbia and Québec were comparably specific in their own press releases. In evaluating what the Foundation was able to negotiate with regard to reinvestment, several considerations need to be weighed. First, the government had already acknowledged, by its statement above, provincial autonomy in such decisions. Moreover, the desire of the Foundation to quickly reach delivery agreements with the province limited its bargaining leverage. In general, we believe that the Foundation has more than met the modest standard set by the Government of Canada in securing reinvestments. It is our sense that its performance might have been better still had the agreements with provinces been negotiated at a more deliberate pace.

Notwithstanding the ambiguities, the Foundation is satisfied that most provinces have reinvested their displaced savings. Our own assessment of these reinvestments, which are crucial to the improvement of post-secondary access, is discussed below.

THE EFFECTS OF THE CMSF ON POST-SECONDARY ACCESS

The primary purpose of the CMSF, according to the legislation that created it, is to improve the access of Canadians to post-secondary. When the program was announced, however, another purpose was put forward – reducing the debt accumulated by students. The federal minister promised that "a student receiving a scholarship over four years will see his or her debt load cut by $12,000, half of what it otherwise would have been." This statement clearly implies that Foundation would provide students with bursaries that would *replace* similarly-sized loans.

The methods by which the CMSF was to reduce debt were clear but how was it to improve access? The public commitments that have governed CMSF operations neither offer a definition of access nor explain how its improvement might be measured. These omissions are important because the existence and strength of the connection between providing additional bursaries to students and improving access cannot be taken as given. Indeed, in the US context, a set of recent academic studies has argued that incremental student aid will have little or no effect on the post-secondary enrolment of student from low-income families, largely because students' ability to benefit from post-secondary education is determined well before the age at which they apply for university or college.

The first step in our analysis of the effects of the CMSF on post-secondary access was to understand: (a) the delivery agreements reached between each province and territory and the Foundation and (b) the side agreements concerning the provincial reinvestment of the savings created by the CMSF bursaries. Conceptually, we divided the effects of the bursaries into two different parts:

(1) *direct* effects, set in motion by the terms of the delivery agreements, on the student aid package received by each student;

(2) *indirect* effects created by provincial reinvestment decisions.

In Québec, for example, the direct effect of the delivery agreement was that CMSF bursaries replaced a similar provincial bursary program and thus did not provide any benefit to students. As part of its reinvestment commitment, however, the Québec government substituted provincial grants for loans for high-need students, a substitution that we consider an indirect effect of the CMSF. In Ontario, the CMSF bursary was used to substitute for an Ontario student loan; the province then guaranteed that each bursary recipient would realize an immediate benefit of $500. The bulk of Ontario's reinvestment is reported to be in the form of increased operating grants to universities, making it difficult to analyze the indirect effects on access. Two-thirds of CMSF expenditures occurred in these two provinces.

In most other provinces, the bursaries had the direct effect of reducing the amount that students were able to borrow without increasing immediately-available resources. Important exceptions were observed in the territories and in Newfoundland and Labrador. There, the bursaries were awarded *in addition* to existing aid packages so that more money was immediately available to CMSF bursary recipients. The importance of this exception is that it illustrates that it would have been possible for the CMSF to use its bursaries for purposes other than the substitution of grants for loans.

From a broad perspective, the CMSF bursary program can be seen as one that essentially substitutes federally-funded grants for provincially (government)-subsidized loans, without increasing the amount of immediately-available funds. Because of provincial commitments to reinvest the savings realized from the introduction of the CMSF bursaries, there is also an indirect effect on access. As far as can be determined from CMSF-provided information, these reinvestments were split between a further substitution of grant for loans (as in Québec) and general increases in institutional budgets (as in Ontario). The details of that broad picture are somewhat different in each province and territory.

We then identified three barriers to access that might now exist in Canada and that the CMSF might help to overcome. These barriers might exist despite the presence of the large-scale federal and provincial student aid programs that were already in place when the CMSF was created. The first possible barrier is the lack of immediately-available funds to finance post-secondary costs. The second possible barrier is the economic rate of return to education – the relationship between the price of post-secondary education and its economic returns. This rate of return has been affected by rising tuition costs. The third is "debt aversion" which may prevent some students from using existing loan programs.

Because the CMSF bursaries are received in place of similarly-sized loans, their direct effect does not help students overcome their lack of immediately-available funds. The bursaries raise the economic rate of return, however, because bursary recipients will have less to repay after leaving school. Moreover, "debt averse" students need not borrow as much.

We do not know of any empirical evidence that determines which of the three access barriers is the most important. Based largely on our understanding of what evidence *is* available and on our experience with these issues, we believe that the lack of immediately-available funds is the most important barrier. Low economic rates of return could conceivably be deterring some potential students but the strong post-secondary enrolment rates observed in recent years suggest otherwise. Similarly, "debt aversion" may, in principle, be deterring some students from enrolling but we have seen little evidence of that phenomenon.

Improvements in access could result *indirectly*, however, from the provincial reinvestments of the savings that the bursaries create. These savings could arise from:

:: lower spending on provincial loan programs;
:: lower spending on provincial programs that partially forgive large provincial loans;
:: reductions in provincial grant programs in provinces where CMSF bursaries replaced provincial bursaries.

As discussed under in the previous section, however, the nature and extent of these provincial reinvestments is difficult to quantify because of the often vague side agreements signed between the Foundation and the provinces and because of the difficulty in identifying what the provinces have actually spent. The Foundation estimates that the provinces saved $185 million as a result of the CMSF bursaries. Again according to the Foundation, the provinces have reinvested $231.6 million. This is possible but implies that the provinces reinvested more than they saved. One might suspect that some of this "incremental" spending would have occurred in the absence of the CMSF but we cannot offer a firm judgement on this point. Since these reinvestments rarely increased the amount of funds immediately available to students, their effect on access is likely to be limited.

THE FINANCIAL PERFORMANCE OF THE FOUNDATION

The CMSF must manage its $2.5 billion endowment in a manner consistent with the financing agreement signed between the Foundation and the Government of Canada. The Foundation appears to be acting in a way that is consistent that agreement. It is obtaining a reasonable rate of return on its security portfolio and incurring reasonable costs in relation to its investment activities.

The review of the Foundation's financial performance identified several issues that might bear further consideration by the Foundation. One such issue is that the CMSF operates in a manner which results in roughly the same annual spending on student bursaries in *nominal* terms for the planned life of the Foundation. Consideration should be given to maintaining the same real spending on bursaries. A second issue concerns the practice of lending securities. The CMSF lends a maximum of 15 percent of its portfolio and earns about $150,000 per year by doing so. There is no clear rationale for the 15 percent limit and this percentage could perhaps be increased.

DATA COLLECTION AND REPORTING

The Foundation data collection and reporting activities are rooted partly in the requirement that it report on "the results achieved by the granting of scholarships" and partly in a suggestion in the Smith report – which guided the establishment of the administrative details for the Foundation – that the Foundation would need to do research that would help it evaluate and design alternative means of fulfilling its mandate.

In analyzing the CMSF data collection and reporting activities, we organized our findings under three headings:

:: the nature and quality of data received from the provinces;
:: research conducted by the Foundation;
:: contributions by the Foundation to other data-gathering exercises.

The nature of the data received by the Foundation from the provinces is limited, by the terms of the delivery agreements, to a narrow set of variables required to administer the CMSF programs. Because extensive socio-economic information is not available, it is difficult for the Foundation to address important issues such as the diversity of student participation across socio-demographic groups.

The Foundation's own research program consists of in-house research projects and a set of papers written by outside researchers, under contract to the Foundation. The design of the overall research program, in terms of specific topics for study, followed from a CMSF conference in 2001. The program has completed, has underway or will be commencing a total of nineteen research projects grouped under three themes: individuals' access to post-secondary education; the social and economic context for access; and "Canada in International Perspective". Overall, the CMSF research program is worthy of high commendation and its policy relevance is especially noteworthy.

Finally, the Foundation has contributed to small number of data-gathering exercises, although it has rightly left large-scale data collection to Statistics Canada. It has completed a survey of student income and expenditure and contributed to a consortium that is surveying 12,000 university students and 6,000 community college students across Canada.

SUMMARY OVERVIEW

Overall, we believe that the CMSF is an effective, innovative organization that, within its mandate, has accomplished much. It managed to come quickly to agreements with all the provinces and territories, agreements that allowed its bursary programs to start earlier than had been expected. It recognized the issue of displacement early on and came to side agreements with the provinces on the reinvestment of displaced funds. Nonetheless, these agreements are quite vague, in some cases, and thus may not lead to reinvestments that directly help students. The leverage of the Foundation in negotiating more specific reinvestment agreements was limited, however, by an announcement by the Government of Canada that implied that provinces were free to spend displaced funds in whatever way they chose. The partnerships between the Foundation, and the provinces and territories, are functional, if not always without tension. Indeed, the Foundation considers itself to be "province-friendly" but the majority of the provinces either believe that Foundation is *not* "province-friendly" or are neutral on the question. The Foundation has clearly met the accountability requirements imposed by Parliament; the existence of "Members", however, does not seem to be working as a way of holding the Foundation accountable for improving post-secondary access. The Foundation receives only limited information from the provinces about its bursary recipients and is therefore unable to undertake detailed analysis of the effects of its bursaries on those who receive them. The pilot projects planned as part of the Foundation's research program, however, may yet shed light on the determinants of post-secondary access in Canada.

1 INTRODUCTION AND PURPOSE

THE FOUNDATION AND ITS PROGRAMS

The Canada Millennium Scholarship Foundation was established by the Government of Canada in 1998 and endowed with $2.5 billion in order to broaden access to post-secondary education by means of scholarships intended to enable Canadians to acquire the knowledge and skills demanded by a changing economy and society. It is an independent, national organization whose head office is located in Montreal, Québec.

In the administration of its programs, the Foundation has three guiding principles:

:: to focus on assisting Canadian students who demonstrate financial need and academic merit;
:: to avoid duplication of existing financial aid programs and costly repetition of administrative procedures;
:: to ensure fairness and equity in the delivery of its programs and resources.

The Foundation's Bursary Program represents 95 percent of the awards distributed by the Foundation. They are awarded to post-secondary students who demonstrate merit and have the greatest financial need. Each year, the Foundation allocates approximately 90,000 bursaries worth $285 million among the provinces and territories, according to each jurisdiction's share of the population of Canada.

In order to reduce administrative costs and avoid duplication of existing student need assessment processes, all provinces and territories have agreed to evaluate students' needs and eligibility on the Foundation's behalf. The Foundation grants its millennium bursaries based on information received from provincial and territorial student assistance services.

The value of the Foundation's millennium bursaries is approximately $3,000 on average, but may range from $1,000 to $4,500.

The Foundation grants up to five percent of all the funds that it disperses annually to students through its Excellence Award Program. About 900 such awards are made each year, on the basis of academic merit, community involvement, leadership, and innovation. There are three types of excellence awards: local award winners receive a one-time $4,000 award; provincial/territorial award winners receive a $4,000 award, renewable up to three times (for a possible total of $16,000); national award winners will receive a $4,800 award, renewable up to three times (for a possible total of $20,000).

The Foundation may also receive and administer funds from other than the initial endowment of $2.5 billion. The first such supplementary endowment came from the Canadian Association for the World Petroleum Congresses. Scholarships from this fund are directed to students of demonstrated merit and financial need who are in areas of academic pursuit relevant to the petroleum industry. The Foundation will distribute 200 scholarships worth $3,000 each year until 2009 via its World Petroleum Congresses Millennium Scholarship Program.

MANDATE FOR THE REVIEW

The Foundation's Charter (*Budget Implementation Act 1998*) requires the Foundation to cause a review and report to be made of its activities and organization between the fourth and fifth anniversary of the coming into force of its creation. In the interests of transparency and public accountability, the Foundation's Board of Directors decided to request an independent third party to conduct this review. The Foundation posted a request for proposals and awarded the contract to a team of researchers centred at Queen's University but with members from several regions of the country.

The study team has reviewed the Foundation's activities since its creation in 1998, giving due consideration to the context in which the Foundation was established and is required to operate. The review covers the Foundation's performance in:

A) complying with the requirements of its legislation, including requirements
:: to grant scholarships to eligible students who are in financial need and demonstrate merit across the country in a manner that complements existing provincial student financial assistance programs and avoids duplication with their process
:: to serve its public in both official languages
:: to keep its administrative expenses as low as reasonably possible
:: to render an account of its activities to the Board and Members of the Foundation, Parliament and the general public
:: to improve access to post-secondary education

B) complying with the terms of its funding agreement with the Department of Finance, including requirement to preserve capital
:: to meet as closely as possible the expected disbursement profile for grants to eligible students and to earn a reasonable return, subject to prudent investment strategy

C) fulfilling the public commitments made by the Government of Canada with respect to the Foundation and its activities, including commitments

:: beginning in 2000 to provide 100,000 scholarships averaging $3000 each year to lower and middle income Canadians
:: to reduce the student debt
:: to respect provincial jurisdiction and student financial assistance priorities
:: to inject additional funds into the current financial aid system

D) making appropriate use of the provisions in its legislation or its funding agreement permitting it
:: to use up to five per cent of the funds it expects to grant as scholarships to eligible persons who demonstrate exceptional merit even if those persons are not in financial need
:: to accept donations of money to be used in carrying out its objects and purposes
:: to earn additional income by entering into a program of securities lending

E) ensuring that where interactions have occurred between need-based programs administered by the Foundation and need-based programs run by the provinces, the Foundation has developed solutions that benefit students

F) setting up data collection and reporting systems that will permit a proper evaluation of its performance over the long term

G) using its position as a private foundation at arm's length from the government to take reasonable risks, innovate and achieve greater efficiency, flexibility, citizen participation and client satisfaction than is possible under government rules and regulations.

The study team was to assess the Foundation's performance within its legislative mandate, not to evaluate the legislation itself.

The sections that follow deal with items (a) through (g) above under the titles Governance and Administration; Foundation/Provincial/Territorial Relations; Financial Performance of the CMSF; Effects of the CMSF on Access; Data Collection and Reporting; and Conclusions. Before tackling them, however, we wish to comment briefly on the context within which Foundation was born and currently operates because it affects our analysis.

2 CONTEXT

The team members found evaluating the Foundation's performance challenging because the outcomes of the Foundation's activities are affected by legislative, political and intergovernmental realities and constraints (some of which are difficult to measure and assess). For one thing, the Millennium Scholarship Program was created during a period of strained federal-provincial relations. To varying degrees, the provinces were initially hostile to this federal initiative, at least in part because it came so soon after the large cuts in federal cash transfers to the provinces that had been associated with CHST. Indeed, Ottawa's decision to create the Foundation as an independent agency was probably influenced at least in part by a judgment that this scholarship program would be more acceptable to the provinces if operated through an agency that was separate from government. The degree to which this initial set of circumstances affected the Foundation's relations with provinces in its early days, and has affected them since then, is difficult to judge.

Second, the provinces and HRDC had long been in the student aid business when the federal government added this additional program to the existing complex of federal and provincial programs. The student aid policies of provinces varied, of course, reflecting their own unique circumstances. Thus, when the Foundation was launched, it had to work with and through this diversity that is a fundamental characteristic of the Canadian federal system. It was the "new kid on the block" and had to gain the acceptance of many of the established players to deliver the program.

For these reasons, in cases where outcomes have been less than they might have been, it was often difficult for the team to discern whether and to what extent these results were due to these realities and constraints and to what extent they were not.

3 GOVERNANCE AND ADMINISTRATION

INTRODUCTION

This section of the report addresses the following three questions, taken from the mandate given to the study team. First, does the Foundation serve its public in both official languages, keep its administrative expenses as low as reasonably possible, and render an account of its activities to the members of the Foundation, Parliament and the general public? Second, have students been aware of their eligibility for assistance and taken advantage of the funds available? Third, has the Foundation used its position as a private foundation at arm's length from government to take reasonable risks, innovate and achieve greater efficiency, flexibility, citizen participation and client satisfaction than is possible under government rules and regulations? We have interpreted these questions broadly. In the pages that follow, we describe the Foundation's governance structure before addressing these three sets of questions in turn. Table 10 (in section 8) and Appendix 7 include summary statements of our evaluation in relation to the questions raised here and in other sections of the report as well.

In seeking to answer the questions posed in this section, documentation provided by the Foundation was reviewed, as were minutes of meetings of its Members, Board of Directors and committees thereof, as well as relevant public management literature. Information was also gathered by means of interviews with the current and former Chairmen of the Board of Directors and six other Directors, selected to be as representative as possible of the full board. Interviews were also conducted with the Chair and twelve other Members of the Foundation. All of the senior managers of the Foundation were interviewed, including the Executive Director and CEO, the Director of Finance and Operations, and the Director of Research. In order to obtain the views of some of the Foundation's clients, interviews were conducted with twelve representatives of university and college student associations and unions across the country and with a representative sample of fourteen university and college financial aid administrators, also across the country.

GOVERNANCE STRUCTURE

The CMSF was created by act of Parliament as a private corporation. It is described as being at arms' length from government but is, in fact, legally independent of government. Its governance structure, complying with the *Canada Corporations Act*, is modeled on that of a private-sector corporation. It has a body of fifteen persons, known as members of the Foundation, the first six of whom were appointed by the Governor in Council. The original six appointed the remaining nine. Members normally serve five-year terms, and may be reappointed. The members themselves make all reappointments. The members are explicitly said to be analogous to shareholders. To avoid confusion, these members of the Foundation will henceforth be referred to as Members, with a capital "M".

The governing body of the Foundation is the Board of Directors, consisting of fifteen persons, six of whom, including the chair, are appointed by the Governor in Council and the remaining nine by the Members of the Foundation. Directors normally serve five-year terms and are eligible for reappointment. The day-to-day operations of the Foundation are handled by a small staff located in Montréal, and headed by Norman Riddell, Executive Director of the Foundation.

THE LEGISLATION

The legislation governing the Foundation is Part 1 of Bill C-36, *The Budget Implementation Act*, 1998[1]. It describes the objects and purposes of the Foundation as being "to grant scholarships to students who are in financial need and who demonstrate merit, in order to improve access to post-secondary education so that Canadians can acquire the knowledge and skills needed to participate in a changing economy and society". The team notes that the existence and strength of the connections between providing bursaries and awards to students, improving access, and preparing Canadians for a changing economy and society, are not givens. Indeed, as will be explored in considerable detail later, there is a significant question as to the extent to which providing bursaries and awards to students, at least in the manner provided by the Foundation, bears a direct relationship to the stated objective of improving access, and therefore the secondary objective of increasing the knowledge and skills needed to participate in a changing economy and society.

In addition to setting out the purpose of the Foundation, the Act contains numerous requirements, some general (e.g. to grant scholarships in a "fair and equitable manner across Canada", to manage the Foundation's resources "effectively, efficiently and economically"), some specific (e.g. to limit the number of months in respect of which a student may receive grants to 32). One requirement is that:

> The Foundation shall grant scholarships in a manner that complements existing provincial student financial assistance programs and that avoids duplication with the processes of those programs, to the extent that it is possible to do so.

This requirement is explored in a separate section below (see section 5 below on Foundation-Provincial Relations). In addition to objects, purposes and requirements, the legislation sets out a number of options for the CMSF (e.g., to accept donations or to grant up to 5 percent of the funds to students of exceptional merit who may not be in financial need), as well as several prohibitions (e.g. not to borrow money or issue debt obligations). These options too are examined later in the report. What we examine here are some of the legislative and budgetary provisions relating to governance and administration, and the Foundation's performance in relation to them.

Service in both Official Languages

Section 44 of the Act specifies that "the Foundation shall offer its services in both official languages". Interviews with student leaders and university and college administrators, meetings with Foundation staff, and perusal of its publications all indicated that the Foundation operates in a fully bilingual manner and serves clients effectively in both official languages.

Accountability

The 1998 *Budget Implementation Act* prescribes both the governance structure of the Foundation and procedures through which the Foundation will account for its activities. Examples of the latter include requirements that the Foundation prepare annual reports in both official languages, that these reports be approved by the Members and the Board, that copies be sent to federal and provincial Ministers, and that the Foundation convene meetings, open to the public, in order to consider the reports and other matters. Interviews and review of CMSF minutes, publications and documents indicated that the Foundation has complied substantively with these requirements. In this narrow sense of accountability, the Foundation has been meticulous in following the requirements of the legislation. Ample information is provided as required, meetings are convened, and reports are filed. The Foundation has also made commendable efforts to attract interested participants to its annual meetings.

Such accounting activities are not, however, sufficient to ensure that an organization is accountable in a larger sense – i.e., that it is held responsible for the discharge of the mission for which it was established. With respect to accountability in this larger sense, the Act establishes the Foundation as a not-for-profit corporation independent of government, in which the Members play a role akin to that of shareholders, although Members do not have a financial interest in the corporation, as would the shareholders of a corporation (see section 7(2)). Thus, as noted above, the Members make nine of fifteen appointments to the Board of Directors (the rest are made by the Governor in Council). They also appoint the auditor and receive the auditor's report and approve the annual report. Although the Members have performed these and other specific functions, it appears that their effectiveness in maintaining the Foundation's accountability in a broader sense has declined over time.

When the Foundation was first created, the Members were very active and played a key role in appointing the initial Board. As the Foundation matured as an organization, however, they were called upon to do fewer things and naturally became less engaged. It has become increasingly difficult to convene meetings of Members, and many now take place via telephone or even facsimile transmission. Quorums are often difficult to obtain.

Our impression is that, over time, the Members' role has become less vital and is now essentially *pro forma*. This view is disputed by some of the original Members, several of whom advised the federal government on the original design of the Foundation. They told us that the Members have a clear and important role and are effective in holding the Board and officers accountable, even though they rarely meet. In this view, the Members do keep a watching brief of the Foundation, and would galvanize into action should the Board or Management stray from the original intent of the organization. In contrast, the more recently appointed Members with whom we spoke indicated that it is unclear what the role of the Members is relative to that of the Board. A number expressed the view that the Members are not in a position to oversee the operations of the Foundation effectively, principally due to lack of information.

Most Directors and officers with whom we spoke expressed the view that the Members' substantive role in the ongoing operations of the Foundation is not meaningful enough to keep them sufficiently engaged to provide effective oversight. We agree that this aspect of the Foundation's governance is flawed. This is not attributable to any lack of dedication or expertise on the part of individual Members. Nor do we believe it can be resolved fully through measures such as more systematic orientation of new Members, changes in appointment criteria, or increased information flow. The supposition that Members can perform a role analogous to shareholders on behalf of Canadians, though superficially attractive, does not reflect the reality of their situation. Important as this issue is, however, it goes beyond the terms of reference for this part of the evaluation and therefore will not be pursued further here. The last postscript to this report will examine ways of improving broad accountability within the framework of the existing statute.

The question of accountability came up frequently in interviews with Members, directors, and officers. When asked to whom the Foundation is accountable the responses varied widely. Some referred to the model of corporate governance set out in the legislation, but generally conceded that the parallel is imperfect at best, since the Members are in no sense shareholders in the corporation. Others thought the Foundation was somehow accountable to students, or recipients of bursaries and awards, although this appeared to be more a subjective sense of accountability rather than objective accountability. Most denied that the Foundation was accountable to Parliament, although considerable information is conveyed to Members of Parliament and others. One Member thought the idea of independence from government was more theoretical than real, a view apparently shared by many provincial officials.

Administrative Expenses

The Foundation was given an endowment of $2.5 billion, to be expended, along with accrued interest and any monies received as gifts or donations by the Foundation from other sources, over a ten-year period, beginning with the first award of scholarships. The foundation will therefore operate until January 1, 2010, at which time it is to be wound up and any remaining assets distributed among eligible post-secondary institutions, in proportion to their shares of the awards paid out in the final year of operation. It is authorized to pay the costs of administration out of this fund as well, but is admonished in the enabling legislation to "… make every effort to keep the costs and expenses of carrying on its business and affairs as low as reasonably possible" (section 17(2)).

What proportion of its total expenditures is as low as is reasonably possible for an organization of this type? In its first four years of operation, that is, until 31 December 2001, the Foundation spent just over $26 million on all forms of administration, including investment management fees, fees to provincial governments for administering the bursary program, advertising, program development, salaries and office administration. Over the first three years that it provided bursaries and scholarships, it awarded or committed just over $874 million. The ratio of administrative expenses to student awards was therefore approximately 3 percent. How does this compare with other, comparable organizations?

Constraints of time and resources precluded an exhaustive comparison with other agencies. Some comparisons are possible, however. One comparator organization might be the Canada Foundation for Innovation, which has a similar governance arrangement and independence from government, although a much smaller set of much larger individual grants to administer. From its annual reports for the years 2000 and 2001, it appears expenditures on administration represented 2.9 percent of the total costs of operation. We understand that the now defunct Canada Scholarships provided universities with an allowance of 5 percent to cover the costs of administration. We also understand that Ontario requires its universities to set aside 30 percent of any tuition fee increase for student aid, and that universities may apply an administrative charge of 5 percent against the resultant revenue. One large university advised that it applies a 4 percent administrative fee on endowment income for scholarships. In the case of provincial programs administered by that same university, the administrative charge is 8 percent.

By these accounts, the Foundation's record of 3 percent for administrative expenses is certainly low, and comparable with its sister foundation. Two points should, however, be noted. First, the marginal costs of some of the Foundation's more recent undertakings (e.g. Early Intervention Pilot Projects, the Millennium Opportunities Bank, touched on in passing in pages 13 and 14 below) may be higher than its average costs, resulting in slightly increased long-term costs per dollar of awards and assets.

Second, the Foundation has achieved this economy partly because the administration of the bursary program is integrated with provincial and territorial student aid programs. The Foundation pays each province or territory a fee for this service, and it also compensated the provinces and territories for the initial costs of re-programming their computer systems. The Foundation paid each province a onetime amount of $120,000 to offset the cost of reprogramming its information systems. The territories were not offered this payment, although Nunavut was promised $60,000 in the first year for system design and implementation. The fee for service compensation reflects a common base amount for all provinces plus a variable component based on size. The territories receive flat payments. The allowance for computer re-programming averaged $14 per bursary, and ranged from $3.64 in Ontario to $55.92 in Newfoundland and Labrador, and $769.23 in Nunavut. Annual re-imbursement of operating costs averages $27 per bursary and ranges from $20.47 in Ontario to $392 in Newfoundland and Labrador. The gross fees range from $30,000 annually for Nunavut to $675,000 annually for Ontario.

There is some concern among some of the provinces that the compensation is inadequate to cover actual costs. We could find no way of ascertaining what a more accurate measure of the additional cost to provinces of the Foundation programs would be. Officers of the Foundation point out that the compensation paid to the provinces by the Foundation, which amounts to $2.5 million for 100,000 clients, is close to 40 percent more generous than that which was paid by the Canada Student Loan Program at the time, which was $9 million for 500,000 clients. We note also that the universities and colleges receive no compensation for administrative costs they must absorb, save that which may nominally be contained within provincial operating grants.

In the case of the Foundation's excellence awards, administrative costs are kept to a minimum by means of the use of volunteers to scrutinize student applications and select winners. A small legion of such volunteers has been recruited from local communities to perform this service, and it is a considerable credit to them and the Foundation that they are willing to do so without remuneration.

STUDENTS' AWARENESS OF ELIGIBILITY

In the first years of the CMSF bursary program, there was a great deal of confusion amongst students about how the bursaries worked, in combination with provincial programs and the CSLP. This was evident in focus group research commissioned by the Foundation, as well as in what we were told by student leaders and student financial aid administrators. Since then, the Foundation has made concerted efforts to better inform students and, according to interviewees, the confusion has been substantially allayed. There is some evidence that students' awareness of their eligibility for CMSF bursary assistance and of its implications for access to other sources of funds varies by province – and that, for example, the interaction of CMSF, CSLP and provincial aid programs is relatively poorly understood in Nova Scotia and Ontario. Fortunately, students do not need to be aware of their eligibility for CMSF bursaries in order to take advantage of them. Since the administration of CMSF bursaries is integrated with that of provincial programs, applicants to the latter are considered automatically.

Interview evidence about student awareness of the Excellence Awards was mixed. Although the number of student leaders and administrators surveyed was too small to permit generalization, the interviews suggested that awareness may vary by type of institution – tending to be relatively high at major universities and low at colleges. A number of interviewees at colleges suggested that the criteria for both the bursary and the excellence awards program have the effect of favouring university over college students. Several cited the requirement of the bursary program that recipients have successfully completed at least one term of study at a post-secondary institution. Given that one-year programmes are much more frequent at colleges than at universities, such a criterion has a disproportionate effect on the eligibility of college students. With respect to awareness, several student leaders and financial aid administrators commented that it is difficult to get information across to students. As one student union president observed, "students have a lot on their minds". Gaps in student awareness were thus not necessarily perceived as symptomatic of deficiencies in the Foundation's communications effort. Indeed, all the representatives of major student alliances with whom we spoke indicated that the Foundation communicates regularly with them.

BENEFITS OF INDEPENDENT CORPORATE STATUS

Young as the CMSF is, it has evolved through a number of stages. Its first challenge was the politically motivated desire to get bursaries into the hands of students, beginning in 2000. Since the design of the program appears not to have anticipated that the dynamics of federal-provincial financial assistance would result in displacement, the award of the first bursaries resulted in widespread public disappointment and controversy. The Foundation responded by working with provinces to increase the net benefit to students through reinvestment of displaced funds in student financial assistance and other aspects of PSE.

The foundation moved next to establish the Excellence Awards, an option provided for in the Act. These are scholarships granted to students who have demonstrated academic achievement, capacity for work, social responsibility and engagement, leadership, and the ability to solve practical problems through analysis and action. Approximately 900 scholarships have been awarded annually since 2001. In addition to the awards themselves, the Foundation operates ancillary programs for Excellence Award winners, including conferences and a web site, in order to encourage them to build networks among themselves, develop community projects, and enhance their knowledge and experience. An additional feature of the Excellence Awards is that they are tenable anywhere in the world and the Foundation encourages recipients to expand their horizons in this way. A Millennium Opportunities Bank provides opportunities for international studies, work or volunteer experience abroad.

More recently, the Foundation embarked on a targeted fundraising program. What the Foundation seeks to achieve through fundraising is illustrated by the World Petroleum Congress Scholarships. These high-need, high-merit awards of $3,000 are granted to students in financial need pursuing studies related to the oil and gas industries. These awards are made possible by a $4.2 million endowment arising from a donation of sponsorship funds recovered from the 16th World Petroleum Congress, held in Calgary in 2000. The prospect of the Foundation competing with universities and colleges for private funds was strongly opposed by those institutions. We were told that the Foundation will seek not to compete with existing institutions for funds and will concentrate on raising funds to assist students who are both meritorious and in financial need through activities linked to its mission and existing activities.

Also recent are the Foundation's program of research and demonstration projects intended to increase understanding of access issues. The research program is described below in the section 7 on Data. The program is expanding to include demonstration projects designed to test the effectiveness of various interventions to increase access to post-secondary education, particularly for young people from low-income families. Early Intervention Pilot Projects are designed to test different high school level interventions, involving counseling, enrichment, parental involvement, and so on.

The evolution of activity just described is characteristic of a learning organization – an organization capable of arriving at novel answers to problems, implementing them promptly, and moving on to tackle new sets of issues. Although not amongst the anticipated benefits listed explicitly in the terms of reference for this evaluation, this capability is one of the principal benefits of independent corporate status, and one that the CMSF has clearly capitalized upon. Although the individual programs described above might well have been implemented by a government department or agency, we believe that the pace of program development and implementation at the Foundation would have been very difficult to achieve under government rules and regulations.

At the same time, this very evolution raises a broader concern about accountability. The development of a research program, for example, along with the initiation of pilot projects, however academically sound they may be and however conducive they may subsequently turn out to be in the development of effective public policy, nonetheless raise a question about "mandate creep". An institution without clear lines of accountability may find interesting, worthy and important things to do that take it beyond its core management competency and mandate. Do all the programs initiated by the Foundation fall within its mandate? That is not for this evaluation team to decide. Whether the rapid pace of program innovation achieved by the Foundation has met or exceeded its mandate is a question that will inevitably be confronted when the Foundation's current mandate and funding expire.

OTHER EVALUATIVE CRITERIA

The terms of reference of this evaluation required that there be an assessment of the extent to which the Foundation has exhibited a number of specific characteristics, including the following:

Reasonable Risk-taking/Innovation

Innovation and risk-taking can characterize numerous aspects of an organization's activities. The manner in which the Foundation's financial responsibilities have been discharged is addressed elsewhere in this review. In its programming, the CMSF has indeed been innovative and, in doing so, has taken reasonable risks. This is least evident in the bursary program, its initial and principal responsibility, probably because of the time frame within which the bursaries were to be delivered, coupled with legislative requirements and associated public and intergovernmental commitments. Subsequent programs, however, show a level and pace of innovation and associated risk-taking that would be difficult to achieve under government rules and regulations. The management of the Foundation is conducted with very high degrees of professionalism and competence.

Flexibility

Flexibility is a subjective matter. In its relations with the provinces, the Foundation can be viewed as flexible in its agreements to proceed with different arrangements with different provinces. At the same time, as will be explored in greater depth in section 4 on Foundation-Provincial-Territorial Relations, some provincial officials see the Foundation as inflexible in its interpretation of these agreements. By way of contrast, some student representatives believe that the Foundation has been too flexible in what it counts as reinvestment and in its willingness to tolerate insufficient reinvestment, notably by the province of Nova Scotia.

Flexibility can also mean being creative, implementing new initiatives quickly, and responding to developments promptly. The CMSF is impressive in this regard.

Citizen Participation

Where the Foundation has had most success in fostering citizen participation is in the selection of Excellence Award winners – a process involving approximately 200 volunteers across the country, each of whom commits a very substantial amount of time to the process. In addition, the CMSF works actively with a broad cross-section of stakeholders in student financial assistance (e.g. federal and provincial officials, student organizations, universities and colleges, members of the research community) across the country.

Client Satisfaction

Asked who the clients of the Foundation are, CMSF directors, Members and officers all put students at the top of their lists. We do not necessarily embrace the view that existing students and their representatives are the Foundation's principal clients. Insofar as the Foundation's purpose is to increase access, the argument can be made that its principal client is the person who would otherwise not pursue post-secondary education. Nevertheless, we thought it appropriate to attempt to ascertain the extent to which the CMSF's clients, as its directors, members and staff define them, are satisfied.

There are at least three categories of student client: individual Excellence Award winners, individual bursary recipients, and student representatives. Limited time and resources made it impossible to survey recipients of Excellence Awards; there is therefore no report on the direct expressions of their levels of satisfaction. That said, student leaders and financial aid administrators perceive those students who win Excellence Awards to be highly satisfied. In addition to the money they receive, the recipients are said to appreciate very much the recognition and the events associated with the awards.

Recipients of bursary awards are in a different situation. For most of them, the CMSF bursaries are part of a financial assistance package. What is important to them is not just the CMSF portion of the package, but the overall amount they receive. Given that this is a product of provincial and federal decisions, as well as of the Foundation's actions, it represents an expectation that the CMSF alone cannot possibly satisfy. The approximately 90,000 bursary recipients are clients of the Foundation, but not ones with whom the Foundation has a direct relationship.

The Foundation is in regular communication with student unions and associations. The dozen interviews we conducted with officials of these organizations suggest that there is a range of opinion on the Foundation's performance. One major student alliance, the Canadian Alliance of Student Associations (CASA), is generally very satisfied with the work of the CMSF, notwithstanding some specific concerns. Another, the Canadian Federation of Students (CFS), takes the view that the purpose of the Foundation was to reduce student debt and that it has not succeeded in fulfilling this core mandate. Francophone student groups tend to see the CMSF as a federal intrusion into provincial jurisdiction and would prefer that the funds invested in the Foundation were instead transferred to the provinces. They, like the CFS, tend to see the creation of the Foundation as driven by the federal government's desire for visibility, constituting unnecessary administrative duplication. To the extent that these groups regard the Foundation's very creation as inappropriate or illegitimate, they would presumably have been difficult or impossible for the Foundation to "satisfy".

The degrees of satisfaction expressed by the individual student union officials with whom we spoke fell between those of the CFS, on one hand, and those of CASA, on the other. They appear to be coloured by several factors. First, with respect to the bursary program, the workings of federal-provincial financial assistance programs, undertakings made by the federal government prior to the passage of the Foundation's Act, and specific provisions within that Act, combined to impose severe constraints on the Foundation's ability to meet expectations concerning debt reduction created by the 1998 Budget Speech. In the course of that speech, the Minister of Finance stated categorically: "This investment will provide over 100,000 scholarships to low and middle income students each and every year over the next decade. The scholarships will average $3,000 each, per year. As a result, a student receiving a scholarship over four years will see his or her debt load cut by $12,000, half of what it otherwise would have been." Consequently, debt reduction of that magnitude is what student leaders were led to expect and, consequently, what many would have deemed to represent successful implementation of the Foundation's mandate.

A second factor affecting student representatives' perceptions is the provincial context. For examples: a Nova Scotia student union representative expressed frustration with the operation of the CMSF bursary program in that province; jurisdictional issues were a more prominent concern in Québec than in other provinces.

Third, with respect to the Excellence Awards, which were praised by many financial aid administrators and a small minority of student representatives, most student unions appear to be opposed in principle to the use of public funds for awards that are merit-based (even when, as in the case of the Excellence Awards, community leadership/ service is also a major criterion).

Finally, our interviews with student representatives took place shortly after the release by the Foundation of a research publication, *The Price of Knowledge*. About half of the Anglophone student representatives with whom we spoke expressed serious concern that this resulted in media coverage suggesting that access to postsecondary education has not been compromised and/or that student debt is not a serious problem. Given their responsibility to advocate for their members and their understanding of the Foundation's purpose, they understandably reacted negatively to this coverage. This may have coloured the feedback we received. Certainly, given this coincidence in timing – and the fact that the time and funding available for this evaluation precluded a representative survey of student leaders – the input described above should be regarded as tentative.

Efficiency

Efficiency is achieved, or not, with reference to an outcome. As economical as the Foundation's operations may be, that does not necessarily translate into efficient programs. As noted above, the outcomes of the bursary program are mediated by the actions of provincial governments and vary from province to province. The extent to which displacement and reinvestment occurs is a crucial factor. As one student leader stated bluntly: "If the promises by the provinces to re-inject money into education have not been respected, then the Millennium Scholarships are useless, since it's only a change in the source of funds, nothing more."

The nature and extent of reinvestment are addressed substantively in sections 5 and 6 below.

4 FINANCIAL PERFORMANCE OF THE FOUNDATION

From a financial perspective the Foundation is a limited-term (12 years) investment pool. It disburses about $300 million in scholarship annually. The funds were made available as a one-time lump sum amount of $2.5 billion in 1998 and the disbursement began in January 2000. Table 1 presents the main financial parameters of the CMSF.

The investment policy of the CMSF follows from the Financing Agreement signed between the Foundation and the Government of Canada. Article 4 of the agreement stipulates general principles to be followed. In particular, they indicate that the CMSF must invest prudently following agreed investment guidelines, that it must hire at least one investment adviser or manager – with more than one allowed; that it must use an external custodial service for securing its financial assets; and that it may lend securities.

TABLE 1
Main Financial Parameters, CMSF ($000)

ITEM /YEAR	1998	1999	2000	2001
(1) ASSETS	2 563 763	2 659 308	2 494 463	2 348 799
(2) EXPENSES-TOTAL	1 439	6 358	8 570	9 885
(3) EXPENSES–FINANCIAL	712	1 500	1 487	1 423
(4) INVESTMENT-INCOME	64 508	100 684	126 292	148 316
(5) MER	1.10%	1.49%	1.18%	0.96%

Sources: 1999 and 2001 Annual Report Financial statement section:
Information for 1998and 1999 is found in the 1999 report while information for 2000 and 2001 is found in the 2001 report
line (1) is from the Balance Sheet for 1999 at p. 22 of the report for that year and for 2001at p. 20 of the report,
lines (2) and (3) from the Statement of Revenues and Expenses (1999: p. 23; 2001: p. 21)
line4 (4) is from note 5 to the financial statements (1999: p. 30; 2001; p. 28)
Notes: 1998 is only from June 18,1998, i.e. 197 days
Expenses financial (3) are management and custodial expenses.
Management (Financial) Expense Ratio (5) is (3)/(4)

The agreed financial guidelines are annexed to the Financing Agreement (Annexe 4.02). These impose the following restrictions on the CMSF:

:: Currency restriction: all investments must be in Canadian dollar assets. Hence non-Canadian dollar assets of Canadian institutions are off limits to the CMSF.

:: Timing restrictions: The CMSF must have at hand at all times short term financial instruments covering 12 months of spending. Also, the average length of investment held must be within one year of predicted spending. No securities shall have a term of more than 12 years as of 1999 except for Government of Canada securities. Finally, in any given year, the next three years of spending must be protected against fluctuating interest rates.

:: Quality restrictions: The restrictions detailed in Table 2 apply:

TABLE 2

Minimum credit quality requirements for investments by the CMSF

CREDIT QUALITY	MAXIMUM % OF PORTFOLIO FOR A GIVEN GOVERNMENT ISSUER	MAXIMUM % OF PORTFOLIO FOR A GIVEN NON-GOVERNMENT ISSUER	MAXIMUM % OF PORTFOLIO FOR A GIVEN CREDIT RATING GOVERNMENT ISSUER	MAXIMUM % OF PORTFOLIO FOR A GIVEN CREDIT RATING NON-GOVERNMENT ISSUER
A	5%	2%	10%	10%
AA	10%	5%	40%	30%
AAA	None (100%)	10%	None (100%)	50%

Source: Financing Agreement, Annex 4.02, mimeo, 1998

Notes: A, AA and AAA are defined in the agreement in terms of CBRS, DBRS, S&P and Moody's ratings

Governments are the federal and provincial governments and their agencies when their financial instruments are fully guaranteed by their governments.

Strictly speaking, these restrictions apply when the portfolio is worth at least $50 million.

These distributional restrictions apply to each and every investment manager.

The CMSF chose from its inception to use three fund managers selected by tender: Phillips, Hager and North (Vancouver), TD Assets Management (Toronto) and YMG Capital (Toronto). Since April 2000, it has used the Royal Trust for securities lending operations of a maximum of 15 percent of its portfolio.

From an evaluation perspective, the first issue is: Is the rate of return obtained by the Foundation on its financial assets appropriate? Table 3 presents information on the annual rates of return for 1999, 2000, 2001 and June 2002 (6 months-annualized).

TABLE 3

Annual Rates of Returns (ROR) CMSF, Total and by Manager and Comparable ROR, Universe and Canada

	TOTAL	MANAGER A	MANAGER B	MANAGER C	UNIVERSE	CANADA
1999	-1.2%	-1.6%	-0.7%	-1.4%	-1.1%	-1.0%
2000	9.8%	9.9%	9.9%	9.7%	10.2%	10.3%
2001	8.3%	8.0%	8.5%	8.5%	8.1%	7.7%
2002	3.8%	3.6%	3.8%	4.0%	3.4%	4.0%

Source: Bimcor reports, provided by CMSF management

The annual total rate of return reported in Table 3 is sometimes above (2001), below (1999, 2000) or bracketed (2002) by the two ScotiaMcleod bond indices used for comparison purposes. One should note here that neither of these indices are perfect comparables; the Universe index includes BBB bonds that the CMSF may not hold while the Canada index is only federal securities. The following points are also of relevance here:

:: The annualized rate of return for CMSF since its inception is 5.8 percent, compared to a similar rate of return on Scotia McLeod indices of 5.75 percent; Universe, 6.22 percent; Short term and 5.69 percent Canada;

:: The value of the portfolios held by each manager, initially set at $833.3 million was as of December 31, 2001 $707.6(A), $710.8(C) and $720.7(B) millions.

:: One holding, worth $8.6million, is in breach of the 12-year rule. This came about as a result of differing interpretations of the relevance (economic plausibility) of a provision in the bond that allows the issuer to extend the life of the bond. Without this extension being exercised, the bond has a maturity of less than 12 years but if this option is exercised, the maturity is longer than 12 years. The board of CMSF has been apprised of this and has allowed the holding of this bond.

:: Management tracks closely the performance and compliance of managers, as evidenced by the Audit Committee reports. No major problem is apparent over the 2000-2002 period; in 1999, a rebalancing of the timing of cash flows required extra work by managers and created short-term difficulties.

:: The three-year requirement of immunization from interest rate changes creates constraints for the managers that reduce slightly their rate of return. Consideration has been given by management to requesting a change in this rule from Finance but this had not been done as this report was being finalized in April 2003.

Overall, the CMSF appears to be obtaining a reasonable rate of return on its portfolio of bonds, either in the short term or over its existence, given the constraints it faces. That said, managers are not rewarded for a better performance by obtaining a greater share of the portfolio to manage and there does not appear to be a policy of systematically re-tendering the management contracts after a reasonable period of time.

One should also note the use by management of the concept of a “surplus” in discussing various policy choices such as the decision to carry out a set of research studies. This number does not appear anywhere in the financial statements of the CMSF but is calculated as the difference between the current market value of assets and the predicted spending over the remaining life of the CMSF, given an unchanged annual amount of scholarships in nominal terms or a decreasing amount in real terms. Yet from July 2000 until January 2003, inflation was 9 percent in Canada. Thus to pay out the same real amount of scholarships as that allocated for 2000, that is, $285,620,000, one would have needed to pay out $311,325,800 in 2003. Ensuring that the real value of scholarship amounts remained unchanged would reduce the estimated surplus as of December 31, 2001 of $254,000,000 significantly.

A second issue that needs to be addressed is the lending of securities. This practice is common amongst holders of large securities portfolios. Owners of securities such as CMSF lend securities to borrowers, against the payment of a rental fee. Borrowers are investment dealers, banks and hedge funds while lenders are pension funds, insurance firms, mutual funds and so on. Borrowers are interested in this since it allows them to pursue diversified investment strategies such as short selling, index/dividend arbitrage and hedging strategies. Lenders are interested since it allows them to earn extra income at no risk since the lending is carried out through financial institutions that guarantee full reimbursement to the lenders. This market has expended in the 1990s with the greater use of derivatives and hedge funds.[2]

CMSF lends a maximum of 15 percent of its portfolio, requesting as collateral assets it can invest in and worth 105 percent of the lent security.[3] This is done through the Royal Trust earning the CSMF about $150,000 a year. It does not appear that there was a call for tenders in this area; rather an unsolicited proposal was accepted. Also, there is no clear rationale for the 15 percent limit as opposed to the proposed 25 percent; as a point of comparison, the Bank of Canada lends up to 50 percent of its portfolio.

A third issue from a financial perspective is the size of the portfolio under management. In 2001, CMSF agreed to receive a $4.2 million gift from the World Petroleum Congress to be used to provide scholarships for third and fourth year students in engineering, earth sciences, environment and international business. This allows the CMSF to spread its fixed administrative costs over a larger asset base, thus increasing the amount of scholarships it can provide.

In January 2002, Ketchum was commissioned to identify possible contributors to CMSF, and staff was hired to examine possible activities in this field. In July 2002, a decision was taken to carry out most of this fund-gathering exercise in-house with new staff. Contacts have been made with various donors and verbal agreement reached with one of them. This is commendable from a financial perspective insofar as this would reduce long-term costs per dollar of assets.

5 FOUNDATION-PROVINCIAL-TERRITORIAL RELATIONS

This section of the report will evaluate the extent to which the Foundation has fulfilled "the public commitments made by the government of Canada with respect to the Foundation and its activities…To respect provincial jurisdiction and student financial assistance priorities".

The following analysis relies on: documents prepared by or for the Foundation; the agreements with the provinces and territories; letters from the provinces to the Foundation announcing commitments on reinvestment; the federal legislation creating the Foundation; Hansard; press releases from the federal government, provinces and foundation; an interview with and information received from the Foundation's Director of Research and Program Development; and interviews with student financial assistance officers in ten provinces and three territories.[4]

COMMITMENTS MADE BY THE GOVERNMENT OF CANADA WITH RESPECT TO THE FOUNDATION

The discussion that follows is in three parts. The first relates to a series of Government of Canada commitments made in legislation and major policy statements. In this regard, the relevant legislation for the Canada Millennium Scholarship Foundation is Part I of Bill C-36, *The Budget Implementation Act, 1998*. The government of Canada made further commitments concerning the operation of the Foundation in statements to Parliament, especially in the 1998 budget speech, and in press releases to the public, most notably after negotiations with the government of Québec collapsed in May 1998. The legislation, for all intents and purposes, instructed the Foundation to enter into agreements with the provinces. The second part of the discussion will focus on a particular instruction to the Foundation from the federal Finance Minister to the effect that it was to create a partnership with the provinces and territories, students, parents and educators. Finally, the Government of Canada acknowledged in its negotiations with the Québec government officials (the negotiations were government to government) that the Millennium Scholarships would displace provincial student aid monies and thus realize savings for the provincial governments without announcing any restrictions on how provinces might use those savings. These three sets of commitments will be elaborated and evaluated below.

FOUNDATION AGREEMENTS WITH THE PROVINCES AND TERRITORIES

:: Section 29.1 of *The Budget Implementation Act, 1998* states: "If the Foundation is satisfied that it is consistent with its objects and purposes to do so, the Foundation may enter into an agreement with a provincial minister respecting a) the criteria for the determination of financial need and merit; and b) the provision to the Foundation of names of residents of the provinces who are determined under those criteria to be qualified to receive a scholarship from the Foundation and any supporting information that the Foundation considers appropriate."

The Foundation in fact concluded agreements with all ten provinces and three territories in the 1999 calendar year – see Table 4. Twelve of the agreements have an almost identical structure. The agreement with Québec is structured differently, but the substance is almost identical. The agreement with Alberta provided a template for all the other agreements, except Québec. The agreements with Alberta and Québec may be found in Appendices 1 and 2 to this report.

TABLE 4

Dates of the Foundation's Agreements with the Provinces and Territories

MAY 3, 1999	Ontario
MAY 4, 1999	Alberta
MAY 7, 1999	Saskatchewan
MAY 7, 1999	Manitoba
JUNE 8, 1999	Nova Scotia
JUNE 14, 1999	Yukon
JUNE 15, 1999	British Columbia
JULY 13, 1999	NWT
JULY 28, 1999	PEI
AUGUST 20, 1999	Nunavut
AUGUST 25, 1999	New Brunswick
AUGUST 27, 1999	Newfoundland
DECEMBER 21, 1999	Québec[5]

The agreements indicate that the provinces and territories will provide the Foundation with names of residents who qualify for bursaries under the criteria set out in the agreements. The agreements also establish the criteria for the excellence awards.

The agreements between the Foundation and the provinces and territories specify the criteria of need and merit. In all jurisdictions, the awards are based primarily on need. The "merit" criterion is little more than full time enrolment in good standing at a recognized post-secondary education institute.[6]

All the agreements stipulate that need shall be based upon the determination under the student aid policy of the provincial program or established by the Canada Student Loans program. The agreements also state that "in making awards, preference shall be given to students in the greatest financial need." In practice, the Foundation has relied on the provincial definitions. The actual criteria for judging need thus vary from jurisdiction to jurisdiction. These differences in criteria are a disadvantage of working through provinces and territories. But these disadvantages are more than offset by the benefits of achieving program coherence within each province and territory. The Foundation would have almost certainly been unsuccessful had it attempted to negotiate the Canada Student Loan definition of need with all provinces and territories and the failed effort would have certainly added to the initial provincial hostility toward this program. As will be seen below, there are serious strains in the Foundation's relations with provinces. The strains would have been much worse, however, had the Foundation not decided to work with provincial determinations based on provincial criteria for eligibility.

:: Section 5.2 of the *Budget Implementation Act, 1998* states: "The Foundation shall grant scholarships in a fair and equitable manner across Canada."

The agreements with the provinces state that the bursaries and excellence awards from the Foundation will be distributed to the provinces according to population. While this equal per capita distribution of awards may be thought of as "equitable" in some ways, it may not be entirely "fair." It may not be fair to treat people or regions with different needs and circumstances equally. The need for financial assistance may be greater in some jurisdictions than others. In jurisdictions where families are on average poorer and/or in jurisdictions where students must travel long distances and live away from home to attend post-secondary education, need may be considerably greater than in other jurisdictions. Arguably more awards should be allocated to jurisdictions in which a greater proportion of the population is pursuing post-secondary education. (Note that this last criterion might have worked in an opposite direction than a criterion that favoured poorer provinces.) Some provinces and territories raised these concerns. But other provinces favoured the per capita distribution of awards. Indeed, Québec argued this position publicly.[7] The current allocation offers the benefits of simplicity and ease of administration with perhaps some costs in terms of fairness.

:: Section 29.2 instructs the Foundation to ensure that no person is disqualified from receiving a scholarship because they intend to pursue post-secondary studies outside their normal province of residency.

All the agreements state that “no person shall be disqualified from being considered for a Scholarship solely because they chose to study outside their ordinary province of residence at an institution that has been designated for the purposes of the Canada Student Loans Program.” In the Québec agreement, mobility is guaranteed by clause 4.2 and Québec adjusted its student aid program to make it portable where previously it had not been.

:: The Foundation was instructed by Section 20.2 to “make every effort to keep the costs and expenses of carrying on its business and affairs as low as reasonably possible.”

This issue was discussed in section 3 above.

:: Section 26 instructs the Foundation to deploy as much of its initial endowment (and any supplemental income) as possible for student scholarships.

This report has indicated that the Foundation has kept its administration costs reasonably low. A number of provincial officials, however, have complained that the Foundation is deploying too many resources in its research program. These provincial officials believe that the money the Foundation spends on its research program should be utilized more directly for the benefit of students. A later section of this report discusses the research program briefly. Here it is simply noted that there is a trade-off between the benefits in the form of program improvements that might potentially come from such research and the benefits of providing more bursaries to current students.

:: Paul Martin stated in the 1998 budget speech that “This investment will provide over 100,000 scholarships to low- and middle-income students each and every year over the next decade. The scholarships will average $3,000 each, per year. As a result, a student receiving a scholarship over four years will see his or her debt load cut by $12,000, half of what it otherwise would have been.”

In the year 2000, the Foundation awarded 89,499 bursaries with an average value of $3,042. It also allocated 889 excellence awards with an average value of $4,090.00. In total, the Foundation granted 90,388 awards in its first year in operation with an average value of $3,053.

In its second year of operation, the Foundation provided 89,875 bursaries with an average value of $3,216. It also granted 1,162 excellence awards with an average award of $4,131. In the 2001 year, in total, the Foundation distributed 91,037 awards with an average value of $3,228.

All the agreements, except that with Québec, have a single annex that provides operational details specific to the jurisdiction. The annexes, however, vary considerably in the level of detail. Some provinces opted to vary the amount of the Millennium Award to students depending on their financial need. The students with the greatest need are to be given larger Millennium Awards, and students with less need are to be given smaller awards. In these provinces the awards range from $2,000 to $4,000 per student, with an average award of approximately $3,000 in accordance with the legislation, although in Newfoundland and Saskatchewan the average awards were approximately $2,740 and $2,784 respectively. In Ontario and the Yukon, all awards were set at $3,000. In the other jurisdictions, award levels were not specified in the agreements, but in all jurisdictions, the agreements stipulate that no award will be less than $2,000. The Northwest Territories and Nunavut also provide fixed awards of $3,000 although these are not explicitly provided for in the agreements.

The agreements with Nova Scotia, Prince Edward Island, Ontario, and Manitoba specify that the Millennium award will be paid directly to the student's bank to reduce his or her debt. In practice, New Brunswick and Saskatchewan apply the Millennium awards against student debt as well, although this is not specified in the agreements. The agreement with Newfoundland states that half the award will be applied to the student's debt, and the other half will be given to students in the form of a cash grant on the top of existing maximum awards thus helping to fill unmet needs. In all other jurisdictions, the awards go directly to students in the form of a cash grant, although this is not explicitly specified in the agreements. In these other jurisdictions, except Québec and British Columbia, the grants replace loans. In Québec, the grants replace provincial grants (for a discussion of the use of savings, see section 6). In British Columbia, CMSF grants effectively replace provincial grants for second year students and they replace loans for third and fourth year students. Ontario has subsequently changed from applying Millennium awards against debt to providing cash grants to students. The impact of the awards on debt and access is assessed in a subsequent section of this report.

:: The Government of Canada stated in a 1998 budget document "The Foundation will begin to award scholarships in the year 2000." [8]

The Government of Canada indicated that it expected the Millennium Scholarship program to start in 2000, and in the report commissioned by the Foundation to guide its initial operation, Dr. David C. Smith concluded: "Much interest and excitement – particularly among students – was expressed during my consultations about getting the CMS under way as soon as possible. The financial needs of students are large and pressing. Administrators of student awards warned of the challenges facing the implementation of such huge programs. Most of those consulted thought it was feasible to launch the Foundation's programs in the year 2000, *if the agreements could be concluded with the provinces early in 1999*. Sufficient lead time is needed to define details of the awards, prepare and distribute brochures and other communication materials and to develop administrative systems for handling the large volume of inquiries, notices, applications, data on needs assessment and payments." [9]

The Foundation surpassed these expectations and awarded the first Millennium Scholarships in January 2000.

In sum, the agreements with the provinces have fulfilled the legislative requirements stipulated by the federal government. The agreements permit each province and territory to select the recipients for the Millennium Scholarships on the basis of the provincial or territorial needs assessment criteria. In each province and territory, the Millennium Scholarships are distributed according to the timelines established by the provincial and territorial programs. The provinces and territories were also able to determine how the award should be applied – either cash grants for students or payments directly to financial institutions to pay down student debt (in both cases affecting positively the level of student debt). Within certain guidelines, the provinces were also able to determine the value of the award to be made to each student. In short, in respect of key program parameters, the Foundation has been flexible in deciding to accommodate provincial/territorial needs and priorities.

PARTNERSHIP

:: The federal minister of finance made it clear in his 1998 budget speech that the government of Canada expected the Foundation to create "a partnership of parents, of educators, of the private sector, and of provincial and federal governments."

A prominent Canadian scholar has written, "partnership is an imprecise and largely emotive term, ubiquitous in the wide range of its uses."[10] He continues, "[t]he vagueness of the term partnership provides an opportunity for creative ambiguity but its relative emptiness of content can also be a source of differing interpretations and misunderstanding."[11] A partnership, however, may be understood as a union of parties to achieve common objectives. The idea of partnership entails cooperation between the parties, although it does not necessarily preclude the possibility of occasional or even frequent conflicts. In a partnership arrangement, a creative tension may sometimes exist between the desire to produce good results, on the one hand, and the desire to avoid or minimize conflict, on the other. A partnership is not necessarily a relationship of equals – there may be junior and senior partners – but the tone of the Finance Minister's Speech indicates that he expected the partners in this endeavour to engage as equals.

In what follows, the focus is almost exclusively on partnership with provinces and territories. At the end of this discussion, however, there is a passing reference to relations with student organizations and universities. As noted above, the federal government instructed the Foundation to establish a "partnership" with the provinces and territories, but the provinces and territories were less than pleased with the federal policy initiative that had led to the creation of the Foundation. At the Annual Premiers' Conference in the summer of 1998, the Premiers issued a strongly worded statement about the Canadian Millennium Scholarship program. They declared: "Premiers reiterated their serious concern about the lack of consultation with respect to the Millennium Scholarships. This federal unilateral initiative, created from funds freed up from CHST reductions, duplicates efforts undertaken by the provinces and territories in the area of student-aid programs. Premiers asked that federal, provincial and territorial governments work jointly to integrate the Millennium Scholarships with existing student financial assistance programs of the provinces and territories."[12] The Foundation thus had to overcome considerable provincial and territorial antipathy to establish a working partnership with the provinces and territories.

As implied above, partnership relations can entail conflict and still be functional. In this case, the Foundation brought money and a mandate to the table and provinces and territories brought experienced delivery systems. Each partner had something valuable to offer the other, they reached agreement, and the program has been delivered in a professional manner since then. Thus, at one level, the Foundation has satisfied the instruction from the federal finance minister in relation to provinces and territories.

In trying to understand something more about the partnership relations, interviews were conducted with officials from the Foundation and all the provinces and territories. The Foundation staff described itself as "province-friendly" and this self-description was put forward with considerable pride and confidence. The fact that the foundation was able to secure agreements with all jurisdictions swiftly at the outset of the program is no doubt part of the reason for this perspective.

As for the conversations with the officials from the provinces and territories, they covered a wide range of issues. The provincial and territorial officials focused less on the fact that the program was being delivered satisfactorily and more on the nature of their relationship with the Foundation. They discussed the negotiation process that led to their agreements with the Foundation, the magnitude of the administrative fees they are paid for delivering the bursaries on behalf of the Foundation, the pace at which the program was introduced, various operational issues, and the Foundation research program. Based on these interviews, perhaps the single strongest impression that struck us is that while the Foundation may view itself as province-friendly, a majority of provinces did not see the Foundation in that light. (The same is not true of the territories.)

More specifically, only three provinces described the Foundation as province-friendly. Three were neutral on the question although, at least for one of the three, the neutral rating was grudging. Four provinces were adamant that the Foundation was not province-friendly. However, territorial officials were, on balance, satisfied with their relations with the Foundation.

As for specific provincial complaints, they include items like the pressure from the Foundation for each province to accept an agreement similar to the first “made-in-Alberta” deal, the speed with which provinces were obliged to negotiate and implement the program, an alleged insensitivity to provincial operational realities (e.g. lack of adequate notice of program changes), and a related perception among most provinces that the Foundation is inflexible on such matters. Some provinces observed that the administrative fees they received from the Foundation were insufficient to cover their costs for administering Millennium awards. Other criticisms and questions related to the unilateral nature of the Foundation’s communications policy and the necessity of its research program.

Some of these complaints can perhaps be interpreted as an indication that the Foundation has at times been tough and demanding during negotiations. This is not, in and of itself, a shortcoming. Some may be seen as examples of the kinds of irritants that are found in many partnerships. Moreover, it was suggested above that the decision to accept provincial eligibility criteria was an important strategic decision that enabled the Foundation to avoid serious potential strains in its relations with provinces. But the number and intensity of the provincial reactions should not be ignored. Provinces by no means see the Foundation as province-friendly and they declared that the senior executives of the Foundation are difficult to work with. Given that the Foundation has seen itself as province-friendly, it should take note that the other party to the relationship sees things in a very different light.

In sum, the most important partnership from the viewpoint of the Foundation meeting its goals is that with the provinces and territories. The Foundation has functional relations with all of them and friendly relations with the territories and a few provinces. However, a majority of the provinces would disagree with the suggestion that the Foundation is province-friendly.

In the introduction to this discussion, it was noted that, in a partnership, there may be tension between achieving results and minimizing disputes. Whether there is in fact this tension in relation to the above discussion is something that the Foundation may also wish to reflect on.

As for other partnership relations, it should be noted that student groups were effectively excluded from the negotiation process between the Foundation and the provinces, with the exception of Québec where student associations worked along side the federal government as an intermediary between the Foundation and the government of Québec. In some provinces, student associations were supposedly consulted or apprised of negotiations on an informal basis. Only in one province were students involved in a formal consultation process. But, for the most part, students were excluded. As one participant stated, “It may have been good politics to involve student organizations…. but it would have slowed the negotiation process down.” According to Foundation staff, however, student organizations were among those pressing for early implementation. University officials have also complained that they have been excluded from the partnership with the Foundation, and the universities complain further that they have incurred additional costs to manage the Millennium Scholarship program but that they receive no financial compensation from the Foundation.

THE QUESTION OF DISPLACEMENT AND REINVESTMENT

The Government of Canada acknowledged the issue of displacement on May 13, 1998, when the initial negotiations with the Government of Québec concerning the implementation of the Millennium program collapsed: "The millennium scholarships could provide the Government of Québec with significant room to manoeuvre, given that these scholarships would take care of some of the needs of students which are now provided for by a Québec government bursary. The scholarships could enable the Government of Québec to reinvest the sums of money thereby saved in funding post-secondary education. Neither the Government of Canada nor the Millennium Scholarship Foundation will decide how the Government of Québec should reinvest the savings it might realize."[13]

The Millennium Scholarship is a needs-based program. Students with financial need apply to the province in which they reside for assistance, and the province determines their need and assesses their financial assistance package (in most jurisdictions assistance is provided in the form of a loan, although some jurisdictions also provide a grant). If a student receives a Millennium Scholarship, the province will conclude that his/her need has been lowered and will consequently subtract the value of the Millennium Scholarship from the amount initially provided by the province. In other words, the Millennium Scholarship would "displace" an equivalent amount of provincial assistance. The provinces would consequently "save" this money.[14] The Foundation's legislative mandate made a certain amount of displacement inevitable.

The extent of the savings would depend on the form of assistance initially provided by the province. A province that withdrew an equivalent amount of grant money would save the entire amount. A province that withdrew an equivalent amount of loan money would save the carrying costs of the accruing interest, and lower its risk in terms of defaults. For students, the displacement effects vary as well depending on the form of assistance they were receiving from a province. A student who had a $3,000 provincial grant replaced by a $3,000 Millennium Scholarship would receive no net benefit, while a student who had a $3,000 loan replaced by a $3,000 Millennium Scholarship would have his or her annual debt reduced by a full $3,000.

The federal government statement of May 1998 cited above is ambiguous as to what kind of reinvestment packages it expected from the Government of Québec (and implicitly from other provinces and territories). It can be read as leaving provinces and territories free to reinvest in any conceivable area (from tax reductions to highways) or to reinvest in the broad area of post-secondary education – two very different standards. A third standard might have also been considered, namely, that provincial reinvestment would have to be in student financial assistance or even on improving student access. This third standard would have been most consistent with the access goals of the Millennium Scholarship program.

The Foundation states that it recognized the problem of displacement at the outset and "decided to confront the problem head on."[15] The Foundation claims that it invoked the then recently-signed Social Union Framework Agreement and asked the provinces and territories to reinvest savings in "the same or a related priority area". This standard appears to be broadly consistent with the second of the above three standards – the more demanding interpretation of what the federal government meant in its ambiguous statement. In practice, the Foundation received "commitments" from the provinces to reinvest displaced monies for the "benefit of students". Appendix 3 includes letters from provincial governments on re-investment of savings. (Further details are provided in section 6 of this report. See especially Tables 6-9.) This suggests that the Foundation has secured reinvestments that meet or exceed the standards established by the Government of Canada. The Foundation itself believes that most provinces and territories have fulfilled their reinvestment commitments, although it has been difficult to verify independently the extent of provincial reinvestment.

Whether the agreements are as strong as the Foundations believes is, however, an open question. The agreements with the provinces and territories do not actually speak to the question of displacement and investment. The Foundation observes that the agreements with the provinces were legal contracts signed for the sole purpose of delivering Millennium Scholarships through the provincial student financial assistance offices. The Foundation also remarks that, in contrast, the question of reinvestment is a *political* issue that could not be addressed in a legal document. It is understood that a provincial commitment to reinvest displaced savings could not be made legally binding. If a memorandum of understanding on reinvestment had been appended to the agreements, however, this would have reinforced the political connection between the Foundation commitment to spend money on bursaries and the provincial commitment to reinvest savings and made it politically more difficult for provinces to soften their commitments.

In any case, under the assumption that provincial commitments on reinvestment could not be included in the agreements proper, the Foundation opted to pursue side agreements with the provinces on the question of reinvestment. The Foundation staff members state that they pursued the question of reinvestment vigorously with the provinces when negotiating the initial agreements. Provincial officials who were interviewed had mixed recollections of their negotiations with the Foundation on the issue of savings and reinvestment. Some could not recall such discussions. Others remembered the Foundation pursuing this matter diligently.

In press releases associated with each of its agreements with provinces and territories, the Foundation estimated the magnitude of the provincial savings and declared that the province/territory would reinvest the stated amount for the benefit of students. In three provinces – New Brunswick, Newfoundland, and Prince Edward Island – the parallel provincial releases made no such announcements relating to reinvestment. The press release from Nova Scotia was ambiguous on this point. Some of the statements from other provinces were vague (Saskatchewan and Alberta) and Ontario's press release seems to be no longer publicly available. Only British Columbia and Quebéc indicated how they planned to spend their realized savings. The details of what the provinces and territories committed and the impact of these reinvestment decisions are discussed in section 6. What we want to focus in here is the timing of the provincial and territorial commitments.

In addition to these public statements, the Foundation also sought and received letters from all provinces with assurances that any displaced savings would be reinvested for the benefit of students. In almost all cases, these letters were received by the Foundation within days of signing the delivery agreements. (See Table 5 and Appendix 3)

TABLE 5
Dates of Provincial Commitments to Reinvestment Relative to Dates of Delivery Agreement

DELIVERY AGREEMENT	PROVINCE	COMMITMENT ON REINVESTMENT
MAY 3, 1999	Ontario	May 3
MAY 4, 1999	Alberta	May 20
MAY 7, 1999	Saskatchewan	May 11/13
MAY 7, 1999	Manitoba	May 7
JUNE 8, 1999	Nova Scotia	Oct 12[16]
JUNE 15, 1999	British Columbia	June 14
JULY 28, 1999	PEI	July 28
AUGUST 25, 1999	New Brunswick	August 25
AUGUST 27, 1999	Newfoundland	August 27
DECEMBER 21, 1999	Québec	29 October[17]

The commitments made by most provinces in these letters were vague. Notwithstanding these ambiguities, as already noted, the Foundation is satisfied that most provinces have reinvested their displaced savings.[18] According to Foundation research, the provinces have reinvested their savings by extending grant or loan programs, increasing debt reduction programs, introducing parallel millennium scholarship programs, or by increasing operating grants to universities. Our assessment of the efficacy of these reinvestments in relation to access is provided in section 6 below.

In considering what the Foundation was able to negotiate with regard to reinvestment, several considerations need to be weighed. The first is that the Foundation had limited bargaining chips relative to the provinces. Through its public pronouncements, the federal government had acknowledged provincial autonomy in the allocation of savings. This affected the Foundation bargaining hand. This weakened hand may have been further diminished by the push from the Foundation to sign delivery agreements with all possible speed. Once the Foundation had committed to investing with and through the provinces and territories (which we believe to have been the right decision), something that the Annual Premiers' Conference had demanded, it lost some of the possible leverage to join the delivery and reinvestment issues in negotiations with these jurisdictions.

In choosing to negotiate speedily, the Foundation was not acting as a result of any legislative requirement that it begin issuing cheques as of January 1, 2000. There is also no publicly known policy commitment from the Government of Canada that the Foundation do so. Our presumption, therefore, is that the Foundation chose the timelines that it followed because it wanted to get the money flowing to students at the earliest possible date. This may have been, on balance, the appropriate decision. It does seem, however, to have detracted from the Foundation's bargaining leverage.

This does not mean that the Foundation lacked all leverage. If a province was reluctant to commit to reinvest, or chooses not to follow through on its reinvestment commitments, the Foundation can make this public ("name and shame"). This is not an insignificant tool but it use obviously would add to the province-unfriendly charge noted above. The alternative of not paying the bursaries to the students of a province or territory is just too blunt an instrument to use.

In general then, the Foundation has more than met the modest standard set by the Government of Canada in securing reinvestments. Indeed, the Foundation appears to have done better on this part of its activities. It is possible, however, that it would have secured firmer and more precise commitments had it signed agreements with provinces and territories with less haste. The compressed timelines set by the Foundation to deliver the first Millennium Scholarships resulted in the Foundation accepting relatively vague commitments on reinvestment. In making this observation, we are conscience of the fact that we are using the benefit of hindsight to second guess those who were trying to launch a new program under difficult circumstances.

Until very recently, the above generality did not apply in the case of Nova Scotia. The Foundation and provincial government publicly disputed with one another the adequacy of Nova Scotia's reinvestment commitments. (The positions of the Foundation and the Government of Nova Scotia are set out in Appendix 4.) According to Foundation officials, some progress has recently been made in meeting Foundation concerns.[19]

CONCLUSIONS

The public commitments of the government of Canada with respect to the Foundation and its relations with the provinces and territories may be assigned to three distinct categories – the commitments contained in the legislation that created the Foundation; the idea of partnership that was raised by the Finance Minister in his 1998 budget speech; and the statements made by the Government of Canada in relation to provincial reinvestment of displaced savings.

In general, the Foundation has met the government of Canada's commitments in relation to the legislation.

With regard to partnerships, the above discussion has focused mainly on relations with provinces and territories. In fact, the Foundation has functional relations with all jurisdictions. The significance of this must not be underestimated. At the same time, several provinces view these partnership arrangements as anything but province-friendly despite the fact that they get the work done. And even those provinces that do not share this view fully have reservations about their relations with Foundation. These observations stand in contrast to the Foundation's perception of itself as having good relations with provinces. And Foundation relations with one province, Nova Scotia, have been adversarial for some time. Note that the evidence available suggests that the Foundation is, however, territory-friendly.

As for reinvestment, the Foundation has more than met the expectations of the Government of Canada. It is our sense that its performance might have been better still had the agreements with provinces been less rushed. In particular, the imprecision in the provincial and territorial commitments might have been received more attention had the pace of negotiation been a little more deliberate.

6 EFFECTS OF THE CMSF ON ACCESS

The purpose of the Canada Millennium Scholarship Fund (CMSF), as stated in the enabling legislation, is "to grant scholarships to students who are in financial need and who demonstrate merit, in order to improve access to post-secondary education in Canada so that Canadians can acquire the knowledge and skills needed to participate in a changing economy and society."[20]

A crucial subtext of the CMSF mandate to "improve access", however, is that CMSF funds should do so by reducing student debt loads. Even though the legislation did not mention debt reduction, the budget speech that introduced the CMSF discussed it explicitly:

> [T]he [CMSF] scholarships will average $3,000 each, per year. As a result, a student receiving a scholarship over four years will see his or her debt load cut by $12,000, half of what it otherwise would have been.

This statement clearly implies that a CMSF scholarship would provide a student with $3,000 grant which would *replace* a $3,000 loan. [21]

The tension between the formal legislation and the government statements about debt reduction might have led the CMSF to feel constrained to try to improve access in ways that also reduced debt. On the other hand, because the legislation contained neither an explicit mention of debt reduction nor any definition of access, other options presumably remained open and the CMSF and the provinces could have chosen different courses of action than those described here.

The first sub-section below clarifies the stated objective of the CMSF – to improve access – and then examines the implications for access of the various forms of student financial aid. The second describes, in general terms, how the CMSF spent the resources available to it and the agreements it struck with the provinces. The final sub-section summarizes this part of our report and the likely effects of the CMSF on post-secondary access. A post-script is also included as an addendum to the report laying out some alternative paths that might be taken, within the context of the existing statute, for the CMSF in the future which would likely have greater effects on access to post-secondary education than the course taken to date.

STUDENT FINANCIAL AID AND ACCESS TO POST-SECONDARY EDUCATION

A Conceptualization of Access

How should access to post-secondary education be defined? It could be narrowly defined to mean only that potential students are able to enroll somewhere in the post-secondary system, even if it is not necessarily at the school they would prefer, if the costs of attending create substantial financial burdens, or if students and their families face some other limitation or hardship. Or alternatively, access could be more broadly defined to mean that potential students are able to enroll in the program and at the post-secondary institution of their choice and are able to attend on their own terms – choosing whether or not to study full-time, to work at a job while in school, to live on their own, and so on – all without suffering any particular financial hardship.[22]

A definition of access between these two extremes seems most appropriate for this report. Access should, for example, mean more than being able to enroll somewhere in the post-secondary system, and choice of program and the institution attended should be possible. Access should also mean that students need not undergo undue financial hardship – for example, they should not have to work at an outside job to the point that it substantially interferes with their studies, or face excessive debt loads in the post-schooling years. Access does not, however, necessarily imply that students should pay only a small part of the cost of their education or that most aid should be in the form of grants rather than loans.

As an example of the confusion that can result from not defining access in advance, consider a student who must borrow to finance his or her education. Under the narrower definitions of access, the loan may increase access because it allows the student a post-secondary choice that would otherwise be impossible. Under the broader definition, however, the loan might not increase access since institutional choice might still be limited and because loan repayment might cause future financial hardship.

Two different kinds of access limitations should be distinguished.[23] The first limitation – what might be called the "financing" limitation – exists when potential students simply do not have access to the money necessary to enroll, even though they believe that attending is the right decision for them. The traditional role of student financial aid is to provide grants and loans so that these immediate financial barriers can be overcome.

A second kind of access limitation – what can be referred to as the "rate of return" limitation – exists when potential students consider the costs and benefits of enrolment and decide that the schooling is simply not worth it in these terms, even though they could find the necessary funds to enroll if they chose to do so. For example, students might decide to enroll in a local college and to live at home rather than attending a distant university, which would be possible if they took on substantial student loans and worked part-time while in school. Or students might decide not to go school at all.

The "financing" limitation is the result of what economists call a "liquidity constraint" or a "short-run credit constraint". Overcoming such credit constraints – constraints generated by capital market imperfections – was the original goal of student loan programs. The "rate-of-return" limitation usually results from private costs that the potential student deems to be "too high" even in the absence of credit constraints.

A variety of non-monetary factors can affect the extent to which potential students are able to have access – however defined – to post-secondary institutions. For example, access will not have been provided unless:

:: potential students have the information needed to making informed choices;

:: the work involved in post-secondary education is structured in a way that is compatible with the family and labour market work obligations of potential students;

:: post-secondary institutions adapt to the needs of potential students from diverse cultural backgrounds.

In principle, these non-monetary factors are part of the economic cost of post-secondary education and thus affect the economic rate of return. Nonetheless, it is worth acknowledging their existence explicitly in any discussion of access limitations.

How Student Aid Affects Access

The idea that there are two different sorts of limitations on access has implications for the design of financial assistance programs. For example, loans and grants both provide funds that can help overcome the financing limitation faced by students who do not have the funds to pay the immediate out-of-pocket costs related to their schooling. Loans differ from grants, however, in their affects on the rate of return limitation. An unsubsidized loan, for example, simply changes the time patterns of payments – students receive the funds necessary to meet their immediate educational expenses but have to repay the loan, with interest, after graduation. The ultimate costs of the education are unaffected and, to the extent that decisions about enrolment are based on long-run costs (and the resulting rate of return), those decisions will also be unaffected. A grant, on the other hand, actually lowers the costs of education faced by the students and thus improves access in this sense as well.

In addition to the economic differences between loans and grants, there may be a difference in their psychological effects. If some potential students are strongly opposed to borrowing – if they are "debt averse" – perhaps out of fear that they will be unable to repay the loans, the offer of loans to pay immediate out-of-pocket costs may not overcome the financing limitation, even though the borrowed money is available and the schooling represents a good investment in terms of its rate of return for the individual. For debt averse students, grants can have a greater impact because there is no need to worry about future debt loads. But despite the prominence that debt aversion has sometimes assumed in policy discussions, it is important to recognize that no study has convincingly demonstrated its existence. Indeed, the vast growth in the amount of student borrowing over the past several decades suggests that debt aversion is in fact not a major problem.[24] That said, most agree that there must be some upper limit to the amount that students are willing to borrow.

The empirical evidence on the principal determinants of who goes on to post-secondary education, focused on the importance of the sort of credit constraints that student aid programs are primarily meant to address, is summarized in Appendix 6. While most of the existing analysis is for the United States, it suggests that "ability" and scholastic preparation, which are in turn significantly related to family background, are by far the most important factors in determining who goes on to post-secondary education, and that credit constraints play at most a secondary, and perhaps relatively minor, role. There is, furthermore, virtually no mention in this literature of debt aversion being a problem, and certainly no empirical evidence of it being one.

That said, there is no doubting that the existing student aid system opens up post-secondary education opportunities for many young Canadians, especially in terms of removing the financing constraints that would exist in the absence of that assistance. Introducing a program like the CMSF as a means of improving access might, therefore, represent a reasonable policy move for increasing access, especially when the wider aspects of access mentioned above (choice of program and institution, not working too many hours at outside jobs while in school, etc.) are taken into consideration. In short, despite the absence of a large body of empirical evidence to prove it – at least partly because it is a hard thing to prove – student financial aid surely matters. The question, then, is which kind of student aid program can best serve those access goals, and how does the CMSF measure up in this respect?

In this context – that is, in the absence of much empirical evidence to guide us, thus causing us to fall back on arguments based on logic and theory – the different types of Canadian student financial aid programs and their effects on access are now discussed. In the next sub-section, the kinds of aid that were expanded through the CMSF are set out and evaluated in this context, allowing a general assessment of their effects on access in a general – if not precise – manner.[25] It should be also noted here that the second post-script (at the very end of this report) returns to these issues from the perspective of suggesting how the CMSF might have a greater effect on access than it has had to date, raising additional points regarding the effects different sorts of programs are likely to have on access that are pertinent to the discussions which follow here.

Student loans comprise one important component of the Canadian student financial assistance system. Federal and provincial loan programs provide students with the money they need to meet their immediate schooling-related expenses; the loans must then be paid back after the borrower leaves school. These loans help students overcome financing limitations that might otherwise prevent individuals from enrolling in school. Furthermore, the Canadian student loan system is significantly subsidized, as the government pays the interest on the loans while the student is in school, provides assistance to borrowers facing difficulty in repayment, and covers the costs of default. These subsidies effectively lower the cost of post-secondary education for loan recipients and thus affect the rate of return limitation on access to some degree as well.

Because the student loan system helps Canadian students overcome both kinds of limitations on access, its effect on post-secondary participation is generally thought to be strong and direct. Preliminary evidence based on a Statistics Canada survey conducted in 2002 aimed at getting at precisely this issue suggests, for example, that the great majority of government student loan recipients state that they would not have been able to pursue their studies without the financial assistance they received in this form (Finnie and Laporte [forthcoming])..

Need-based grants are a second major form of assistance meant to increase access to post-secondary education.[26] First, grants help students overcome financing limitations in the same way as loans – by providing the funds they need to meet their immediate schooling and related living costs. But since, grants do not have to be re-paid, they also reduce the effective costs of the schooling by their full amount, and therefore improve the rate of return (and by more than a loan of the same amount).

Because of their strong effects on both the financing and rate of return limitations (and on any debt aversion which might exist) grants may be presumed to have a large impact on access. However, while a grant program may improve access more than a loan program of the same dollar amount (due to its stronger effect on the rate of return limitation), it will be more expensive to government precisely because grants, unlike loans, are not paid back. Otherwise put, a given amount of government spending could deliver the same amount of financial assistance to probably five or six times as many students if delivered in the form of loans rather than grants, as the money is effectively recycled across successive generations of borrowers. The relative effectiveness of loans versus grants must, therefore, be evaluated in terms of the overall effect of each type of support per dollar spent (as well other considerations), as discussed in detail in Finnie [2001c].

Debt remission programs forgive, in whole or in part, student loans that have previously been taken out. Some debt remission programs take effect only after the borrower has left school, while others – including all those in which CMSF money was spent – take effect after (or during) each completed school year. An important characteristic of debt remission programs is that eligibility depends only on the amount borrowed, and not on any measure of long-term financial hardship. For example, former students who move into well-paying jobs may be eligible for debt remission even though they have no long-term financial need.

The effects of such programs on access are indirect and likely to be weaker than the effects of loans or grants. The reason is that debt remission programs do not, by definition, increase the amount of money available to potential students making enrolment decisions. Instead, they reduce the amount of already-received assistance that needs to be repaid.[27] That is, debt remission does not help to overcome the financing limitation on access.

Furthermore, debt remission helps overcome the rate of return limitation on access only if potential students understand that the ultimate cost of their education will be lowered by the debt remission they will eventually receive, and are not deterred by any related conditions, such as those the remission being conditional on the successful completion of the particular year of study or final graduation from the program in which the person is enrolled, which may be especially pertinent issues precisely for those at the margin of pursuing their post-secondary studies. Finally, the size of the impact of debt remission on any potential students who are "debt averse" likely lies between the impacts of grants and loans: while individuals must still borrow to benefit from the program, the prospect of having part of their loans forgiven may increase their willingness to do so.

Means-tested assistance in debt repayment refers to government programs that provide financial help to former students who have limited resources and who are having trouble repaying their student loans. For example, the CSLP Interest Relief program suspends student loan repayments and absorbs the associated interest costs for up to 54 months for low-income former students, while their more recently introduced Debt Reduction in Repayment program reduces the amount of principal owed for those facing prolonged hardship.

As with debt remission, the effect on access of such assistance is likely to be weak and indirect, since it does not address the financing limitation (i.e., it provide no additional money up front when students might need it to pay for their schooling). Access may, however, be improved if students recognize that help may be available should they run into trouble repaying their loans and thus assuage concerns about debt repayment, causing some individuals to feel comfortable to finance their studies in this way. Similarly, these programs may increase the expected rate of return to education by lowering the total costs of borrowing (as the full costs of the loans are not necessarily repaid).

The main difference between debt remission and means-tested assistance in repayment is that the means-tested assistance is targeted on former students who can demonstrate the need for such help, rather than on all those who have a certain level of debt. Since more assistance can then be provided for those who really need it, means-tested assistance in repayment should have larger salutary effects on debt aversion per dollar spent. On the other hand, debt remission has a more universal effect on the rate of return limitation – while being commensurately more costly – precisely because it tends to go to more recipients due to the absence of any need criterion. In the end, the relative efficacy of these different kinds of loan reduction programs – debt remission versus assistance in repayment – depends on their comparative effects per dollar spent, as well as on how aware students are of the programs available.

THE EFFECTS OF THE CMSF ON ACCESS

The Structure of the Direct and Indirect Effects of the CMSF on Access

The first step in evaluating the effects of the CMSF funds on access is to identify the kinds of student aid that the CMSF has provided as the result of the bilateral agreements it reached with the provinces which determined how the money was to be spent. What may be called the "direct" effects of that spending can then be judged on the basis of the preceding discussions of how different types of aid are likely to affect access. The second step is to evaluate, in a similar fashion, the effects of the provincial re-investment s of the savings realized as CMSF spending has displaced provincial spending. The two effects together represent the full effects of the program.

Before providing our analysis, however, it is worth noting that some members of the research team spoke with several university and college student aid officials and student leaders. In general, they did not believe that either the bursary or excellence programs had the effect of increasing access. One requirement of the bursary program is that recipients already be registered in a post-secondary institution and have successfully completed at least one term of study.[28] They suggested that action to increase access would have to occur much earlier (that is, before post-secondary students first register to be post-secondary students) in order to affect prospective choices and decisions made by young people considering a post-secondary education. In any case, we did not rely on these conversations as a principal basis for analyzing effects on access. Instead, we followed the two step process noted above.

Regarding the first step, or direct effects, in almost all cases, CMSF funds have been used to lower student debt – effectively one form or another of debt remission. In some provinces, CMSF bursaries have replaced all or part of a provincial student loan for which an individual has qualified *before* the loan is issued, or otherwise as part of an aid package worth a given amount of dollars. That is, students qualify for a loan, based on provincial rules regarding student financial aid, but then receive a grant instead of the loan (or instead of *part* of the loan), or otherwise receive a grant which does effectively the same thing. In other provinces, however, the student actually takes out a loan, and some months later receives a CMSF bursary which is used to pay down that loan in one manner or another. In all cases, the economic cost of the individual's schooling is lowered (and the rate of return increased) because there is less debt to be repaid, but there is no change in the total amount of money immediately available to students.

Regarding the second set of effects, the CMSF funds created financial savings for the provinces to the degree they spent less on existing grant, loan, and debt remission programs as a result. These savings lead to re-investments according to agreements between the CMSF and each province. To the degree these re-investments went into programs that affected access, they need to be taken into account in any full accounting of the effects of the CMSF on post-secondary participation..

Provincial savings can arise in a number of ways:

:: reductions in spending on provincial loan programs – on the in-school interest subsidy, default costs, and other loan-related costs;

:: reductions in spending on existing provincial debt remission programs that are made unnecessary by the lower level of borrowing; and

:: reductions in provincial grant programs which had been used to substitute grants for loans.

The complexity of what has happened as the result of the agreements between the CMSF and each province precludes a detailed description of how the CMSF funds have affected student aid in each and every jurisdiction; interested readers may go to the CMSF web site or those of each province to look for this information. By way of example, however, it is, quite useful to understand the broad outlines of what happened in Ontario and Québec, where almost two-thirds of CMSF funds were spent, and also to provide a general idea of what happened in the other provinces.

In Québec, prior to the existence of the CMSF, the province had grant programs that provided students whose financial need was above certain thresholds (for example, $3,200 for undergraduate students) with grants rather than loans for all assessed need above those levels. (Students whose need was below the thresholds were offered only student loans.) Under the terms of the agreement between Québec and the CMSF, the CMSF awards replaced money that Québec had been spending on these grants. If the thresholds had remained unchanged, there would have been no benefit to students since the CMSF funds would have simply substituted for provincial benefits of the same type and amount. As part of the re-investment agreement, however, Québec lowered the thresholds – for example, the threshold where grants cut in was lowered to $2,400 for undergraduates – and used their savings to pay the increased grants that resulted. The overall effect of the CMSF awards was, therefore, to provide more "up-front" substitution of grants for loans for needy students, although there was no change in the overall amount of financial aid provided to meet schooling costs. (More precisely, all loan limits dropped by 25 percent, so whereas in 1998-99 the limits were $2,400 for CEGEP students, $3,200 for Bachelor's level students degree, and $4,100 for graduate level students, after 1999-2000 the limits were $1,800, $2,400 and $3,075, respectively.)

In Ontario, prior to the creation of the CMSF, a debt remission program called the Ontario Student Opportunity Grant (OSOG) provided funds to repay, at the end of a school year, all or part of the loans that high-need students had taken out at the beginning of the school year. For example, university students who borrowed more than $7,000 in the August preceding a school year had all borrowing in excess of $3,500 per term offset by a grant awarded shortly after the end of the academic year as long as they successfully completed their studies, thus making $7,000 the maximum annual debt. CMSF bursaries effectively replaced OSOG debt remission for qualifying students. The uniform $3,000 value of the CMSF awards meant that some students received more debt reduction than they would have with OSOG, while all CMSF bursary recipients were guaranteed a net benefit of at least $500 over what they would have received with OSOG. Also, the structuring of the CMSF awards is a little different as well: students are notified of their CMSF bursary in August and are told that if they successfully complete their fall term, they will receive $3,000 in grants for the winter term and thus will have to borrow $3,000 less, rather than take out the loan and later have it remitted. The savings realized by Ontario have been re-invested in a variety of ways, although very little of this has been in the form of direct student financial assistance, as discussed further below.

In almost all other provinces, CMSF bursaries have been similarly used to reduce students' debt without increasing the dollar amount of aid, while the savings have been re-invested in a range of education-related programs, although to varying degrees and in different ways, and not always in a manner that would likely have much impact on access. For example, in Nova Scotia, Prince Edward Island, New Brunswick, and Manitoba, CMSF bursaries are effectively used, toward the end of a school year, to pay down loans that students took out at the beginning of the year. In contrast, students in British Columbia see the CMSF as an up-front grant, rather than an after-the-fact reduction of a student loan already taken out, but the net effect on their final financial situation is about the same. In Saskatchewan, CMSF bursaries effectively reduce the amount of loan students are left with at the end of the year after their total aid package has been calculated and divided between grant and loan. In Alberta, all students are given loan limit guarantees at the beginning of the year, and any shortfall in funds from CMSF sources (which are allocated on a provincial, not individual, basis – as described elsewhere in this document) is made up by the province, which thus essentially contributes to the CMSF program.

An important exception to all these cases is that in Newfoundland and the Territories, some (Newfoundland) or all (the Territories) of the CMSF bursaries have gone towards providing students with *additional* money to pay their schooling costs, rather than changing the composition of a given aid package between loan and grant or debt remission as elsewhere. These cases are notable for demonstrating that this approach was a real option, as is discussed further below.

The "Direct" Effects on Access of CMSF Awards

Table 6 summarizes how the CMSF bursaries have been spent in each province and the general nature of the provincial savings generated as a result. Table 7a shows the dollar value of CMSF bursaries awarded and the net reduction in provincial loans taken out by students as a "direct" result (i.e., without taking provincial re-investments into account). Table 7b shows the amount of provincial savings stemming from the CMSF spending and the provincial re-investment commitments, the effects of which on access are discussed below. All values are for the 2000-01 year, except where indicated.

In 2000-01, the CMSF spent $284.2 million (Table 7a). The amount by which debt was "directly" reduced by the substitution of CMSF bursaries for provincial loans was $115.2 million. The difference between these two numbers represents the degree to which CMSF bursaries simply replaced provincial spending on existing grant and debt remission programs – in which cases there was no net reduction in student borrowing – plus the small amount of spending ($3.6 million) that increased the amount of money available to students in Newfoundland and the Territories.

TABLE 6

How CMSF Bursaries are Spent and the Nature of Provincial Savings

PROVINCE/ TERRITORY	HOW CMSF BURSARIES ARE SPENT	NATURE OF PROVINCIAL SAVINGS
NEWFOUNDLAND AND LABRADOR	The CMSF bursary is divided into two parts. One half is paid to the lending institution to repay all or part of the student's loan. The other half is a grant that goes towards unmet need, thus increasing the overall amount of aid given. Awards range $2,000 to $3,500.	Because overall borrowing is reduced, the costs of operating the provincial loan program and the existing loan remission program are lower.
NOVA SCOTIA	Students borrow at the beginning of the academic year. If the student completes the school year, the CMSF bursary is sent to the lending institution to repay all or part of the loan. Awards range from $2,000 to $3,500.	Because overall borrowing is reduced, the costs of operating the provincial loan program and the existing loan remission program are lower. (Note: as of the summer of 2000, Nova Scotia eliminated its loan remission program, so the CMSF bursaries now only reduce lending costs.)
PRINCE EDWARD ISLAND	Students borrow at the beginning of the academic year. If the student completes the school year, the CMSF bursary is sent to the lending institution to repay all of part of the loan. Awards range from $2,000 to $4,000.	Because overall borrowing is reduced, the costs of operating the provincial loan program and the existing loan remission program are lower.
NEW BRUNSWICK	Students borrow at the beginning of the academic year. If the student successfully completes the school year, the CMSF bursary is sent to the lending institution to repay all or part of the loan. Awards range from $2,000 to $4,000.	Because overall borrowing is reduced, the costs of operating the provincial loan program are reduced. (New Brunswick does not have a loan remission program and thus has no savings of this type.)
QUÉBEC	The CMSF bursary is used to provide grants (instead of loans) to students whose need is above a predetermined threshold. Awards range from $1,000 to $4,500.	The CMSF bursaries replace provincial grants that would have otherwise been given to the same students.
ONTARIO	Students borrow at the beginning of the academic year. If the student successfully complete the following term, the CMSF bursary is received in place of all or part of the previously authorized loan. All awards are $3,000.	Because overall borrowing is reduced, spending on OSOG, the existing Ontario loan remission program, is lower, as are the costs of operating the provincial loan program.
MANITOBA	Students borrow at the beginning of the academic year. If the student successfully completes the school year, the CMSF bursary is sent to the lending institution to repay all of part of the loan. Awards range from $1,000 to $4,500.	Because the overall amount borrowed is smaller, the costs of operating the provincial loan program are reduced. (Note: Manitoba does not have a loan remission program and thus has no savings of this type.)
SASKATCHEWAN	The CMSF bursaries reduce the amount that the student would otherwise borrow. Awards range from $2,000 to $4,000.	Because overall borrowing is reduced, spending on Saskatchewan Study Grants, the existing Saskatchewan student aid program, is lower.
ALBERTA	For second year students, the CMSF bursaries replace Alberta Opportunity Grants. For third and fourth year students, the CMSF bursaries replace provincial loans. Awards range from $2,000 to $3,000.	For second year students, the CMSF bursaries replace Alberta Opportunity Grants that would have otherwise been given. Because overall borrowing is reduced for third and fourth year students, the cost of operating the provincial loan program and the existing loan remission program are also lower.
BRITISH COLUMBIA	CMSF bursaries provide grants to second, third and fourth year students who would otherwise have had to borrow. Awards range from $2,000 to $4,500.	The CMSF bursaries replace provincial grants that would otherwise have been given to second year students, and by reducing overall borrowing by third and fourth year students, they lower spending on the existing loan and debt remission program (although the latter program was ended in 2000, thus eliminating any associated savings).
YUKON, NWT, NUNAVUT	Students with the greatest need receive a $3,000 CMSF bursary in addition to existing student assistance.	Because the CMSF bursaries are in addition to existing aid, there are no savings.

Source: Canada Millennium Scholarship Foundation. *Canada Millennium Scholarship Foundation Bursary Program: A Report on Displacement and Provincial Re-investment* . June 2001, and discussions with CMSF staff.

Notes: Funding is provided only to students that meet general CMSF criteria, which includes having completed one year of studies (more technically, at least 60 percent of a full year of studies). Each province provides the CMSF with a list of students in descending order of need. The CMSF then goes down the list until each province's allocation (based on population) is exhausted. (Alberta is an exception in this last respect, in that it first sets the bursary criteria, then guarantees funding to all students meeting these criteria, making up any shortfall resulting from the amount of funds based on the CMSF per capita formula.) All CMSF loan remission is done on an annual basis and is based on the amount of borrowing over the course of the year.

TABLE 7A

Value of CMSF Bursaries Awarded and the Net Reduction in Provincial Loans Taken Out by Students as a Direct Result (Millions of Dollars), 2000-01

PROVINCE/TERRITORY	CMSF SPENDING	NET REDUCTION IN PROVINCIAL LOANS DUE TO CMSF BURSARIES
NEWFOUNDLAND AND LABRADOR	5.4	2.4
NOVA SCOTIA	8.9	8.9
PRINCE EDWARD ISLAND	1.3	0.6
NEW BRUNSWICK	7.3	7.3
QUÉBEC	70.5	0.0
ONTARIO	106.3	46.0
MANITOBA	11.0	11.0
SASKATCHEWAN	9.8	2.5
ALBERTA	26.6	12
BRITISH COLUMBIA	36.8	24.5
YUKON TERRITORY	0.3	0.0
NORTHWEST TERRITORIES	0.4	0.0
NUNAVUT	0.2	0.0
CANADA	**284.2**	**115.2**

Source: Canada Millennium Scholarship Foundation. *Canada Millennium Scholarship Foundation Bursary Program: A Report on Displacement and Provincial Reinvestment* . June 2001.

Notes: The decrease in provincial loans equals, for the most part, what the CMSF calls "net benefit" in its reports. The difference is that we have removed the small amount of Territorial spending and half of the Newfoundland spending which comes in the form of increases in grants going towards un-met need ($3.6 million). The difference between CMSF spending and the net reduction in loans represents the degree to which the CMSF bursaries simply replace provincial spending of a similar type (i.e., which would reduce student borrowing in the absence of the CMSF. These figures represent the "direct" effects of the CMSF bursaries in that they do not take the resulting provincial re-investments into account. These are discussed below.

TABLE 7B

Provincial Savings and Re-investment Commitments (Millions of Dollars), 2000-01

PROVINCE/TERRITORY	CMSF SPENDING	PROVINCIAL SAVINGS (ESTIMATED BY THE CMSF)	PROVINCIAL RE-INVESTMENT COMMITMENTS
NEWFOUNDLAND AND LABRADOR	5.4	1.0	1.0
NOVA SCOTIA	8.9	1.0	0.0
PRINCE EDWARD ISLAND	1.3	0.8	0.8
NEW BRUNSWICK	7.3	0.8	0.8
QUÉBEC	70.5	70.5	85.0
ONTARIO	106.3	69.2	85.0
MANITOBA	11.0	1.0	6.0
SASKATCHEWAN	9.8	7.7	9.2
ALBERTA	26.6	18.0	24.8
BRITISH COLUMBIA	36.8	15.0	19.0
YUKON TERRITORY	0.3	0.0	0.0
NORTHWEST TERRITORIES	0.4	0.0	0.0
NUNAVUT	0.2	0.0	0.0
CANADA	**284.2**	**185.0**	**231.6**

Source: Canada Millennium Scholarship Foundation. *Canada Millennium Scholarship Foundation Bursary Program: A Report on Displacement and Provincial Reinvestment* . June 2001.

Notes: The figures for Manitoba and Alberta are for 2001-2002. Since the preparation of the CMSF document upon which these numbers are based, Nova Scotia and New Brunswick have made additional commitments.

The earlier discussion of the ways in which different forms of student financial aid can affect access is the basis of our assessment of the effects on access of this spending. Although – as previously mentioned and discussed in detail in Appendix 6 – there is a shortage of empirical evidence on these issues, the theoretical arguments offered above (and further discussions in the second post-script) suggest that the largest and most direct effects on access are almost surely associated with programs that provide the money students need to meet their immediate schooling and related living expenses – that is, programs that overcome the financing limitation on access by giving more up-front money to students.

CMSF bursaries do not, however, increase the amount of money available to students in this way. That is, in almost no case do they take the form of *extra* money for students to meet current schooling-related expenses. (As previously noted, the small CMSF expenditures in Newfoundland and the Territories are the exception to this rule.) Instead, they only change the mix of the total student financial aid package received by students, and thus represent what can be considered debt remission that is either “up front” (i.e., before the student actually takes out a loan) or at some point later in the academic year. The effect of the CMSF bursaries is, therefore, restricted to reducing future, post-schooling, debt loads.

The effects on access of such reductions are, furthermore – as previously discussed – likely to be limited and indirect. They can only come from reducing the economic cost of education, and this only to the extent that such reductions in long-run costs are perceived by potential students and have a significant affect on the decision to attend; or from reducing debt aversion, to the extent this exists and is a problem.

Effects on Access through the Re-Investment of Provincial Savings

The effects on access of putting money into up-front or after-the-fact debt remission versus providing students with additional money to meet their immediate schooling costs – the direct effects of CMSF spending just discussed – can be debated. What is more unambiguous, however, is that CMSF awards have resulted in significant displacements of provincial spending, and that the full effect of the program depends on what the provinces have done with those funds.

Table 7b shows that CMSF spending resulted in $185.0 million (65.1 percent of CMSF spending) in provincial savings, in 2000-01 (at least as calculated by the CMSF itself, which is the source – through its publications and discussions with its staff – of the numbers reported here). As indicated in Table 6 (and discussed above), these savings took three main forms – money that the provinces no longer spent on grants, money they no longer spent on provincial loan programs, and money they no longer spent on debt remission programs. As a result of the set of bilateral agreements reached between the CMSF and the provinces, the provinces then committed to reinvesting those savings – in various ways and indeed to various degrees. It is these savings and re-investment commitments that are shown in Table 7b.

In some cases, the commitments are quite precise, but in others they are rather vague.[29] For example, in their letter, Ontario says only that "… Ontario *intends* to re-invest savings *for the benefit of postsecondary students*. This will ensure that Ontario students are able to benefit from the Foundation's allocation for General Awards" (emphasis added).

In the face of such uncertainty, the only option available to this evaluation is to offer comment on the re-investments listed in the federal-provincial letters of agreement and monitored by the CMSF. These are summarized in Table 6 and in the last column of Table 7b and are described in more detail in Tables 8 and 9.

TABLE 8

Total Provincial Re-investments by Activity Area (Millions of Dollars), 2000-01

ACTIVITY AREA	RE-INVESTMENTS
INCREASES IN NEED-BASED STUDENT ASSISTANCE	125.6
INCREASES IN UNIVERSITY AND COLLEGE BUDGETS	94.2
INCREASES IN OTHER AREAS / UNCOMMITTED	12.8
TOTAL	**231.6**

Source: *Canada Millennium Scholarship Foundation*. *Canada* Millennium Scholarship Foundation Bursary Program: A Report on Displacement and Provincial Re-investment . June 2001.

TABLE 9

Details of Provincial Re-investments (Millions of Dollars), 2000-01

PROVINCE/TERRITORY	DETAILS OF RE-INVESTMENT	AMOUNT
NEWFOUNDLAND AND LABRADOR	Newfoundland Student Assistance Program.	1.0
NOVA SCOTIA	No re-investment commitment	0.0
PRINCE EDWARD ISLAND	Expanded grants program	0.8
NEW BRUNSWICK	“to benefit New Brunswick post-secondary students”	0.8
QUÉBEC	New investments in student services Reduction of 25% in grant threshold	35.0 50.0
ONTARIO	Guaranteed $500 “top-up” for Bursary recipients Increased operating grants for universities Increased in-school work and scholarship income exemptions Ontario Graduate Scholarships Doubling of Work-Study program	6.0 52.0 12.0 10.0 5.0
MANITOBA	Manitoba Millennium Bursaries program	6.0
SASKATCHEWAN	Increased operating grants for universities Portability of provincial student loans	7.2 2.0
ALBERTA	Expanded grants program Extra expenditure on CMSF Bursaries	23.0 1.8
BRITISH COLUMBIA	Expanded British Columbia Financial Assistance Program	19.0
YUKON, NWT, NUNAVUT	No displacement, so no re-investment	0.0

Source: *Canada Millennium Scholarship Foundation. Canada* Millennium Scholarship Foundation Bursary Program: A Report on Displacement and Provincial Re-investment . *June 2001.* Since the period referred to in this table, New Brunswick and Nova Scotia have made additional commitments

A first point to note is that re-investments shown are greater than the savings: $231.6 million versus $185 million (Table 7b). This is possible, but implies that the provinces “reinvested” an amount of money in excess of the total savings generated by the CMSF bursaries. This may be true, but one might suspect that some of this “incremental” spending would have occurred in the absence of the CMSP. It is impossible for us to offer a firm judgment on this, although there are grounds for some level of skepticism.

Second, of the total re-investment of $231.6 million, $94.2 million, or 41 percent, was in “increases in university and college budgets”, $12.8 million, or 5.6 percent was in “other areas or uncommitted”, and just $125.6 million, or 54.2 percent, was in student financial assistance (Table 8).

One implication of these numbers is that the dollar value of debt reduction (115.2 from Table 6a) plus the provincial re-investment s in needs-based financial assistance ($125.6 million from Table 8) is less than the amount of spending by the CMSF.

A second implication is that the money re-invested by provinces in student financial assistance was directed into a wide range of financial aid programs: grants, loans, debt remission. In the absence of more detailed breakdowns and descriptions of this spending, all that can be said is that some of the money appears to have been re-invested in grant and loan programs that might have relatively large impacts on access, and some was re-invested in debt remission programs of one sort or another whose effects on access are weak and indirect.

To give a specific example, and using the largest province, CMSF bursaries were awarded to the amount of $106.3 million in Ontario in 2000-01, resulting in a direct reduction of student borrowing of $46 million (Table 7a), and provincial savings of $69.2 million (Table 7b). Relative to the latter amount, actually more than this is claimed to have been committed to “re-investment”, or $85 million in total (Table 7b), but only $33 million of this was in programs related to student financial aid (Table 9), with $52 going towards increased operating grants for universities. Thus, whereas CMSF spending was $106.3 million, the net increase in spending on student financial aid of all kinds, taking both direct and reinvestment effects into account, was just $79 million, or 74.3 percent of total CMSF spending. Thus, taking these numbers at face value, the CMSF appears to have resulted in the federal government contributing towards Ontario’s operating grants to universities to the detriment of what might have been spent on access or debt reduction programs per se.

As another example, in Québec, every dollar spent appears to have gone into debt remission either directly or indirectly. But whereas an amount equal to all the CMSF spending did go into student financial aid, this only reduced the amount of lending on the part of students, while contributing nothing towards any un-met need that might remain. Hence, the effects of the spending on access are not likely to be very great.

The other provinces tell other stories of different types.

SUMMARY AND CONCLUSION

The legislative mandate of the CMSF was to provide scholarships to Canadian students in order to improve their access to post-secondary education. The government, however, surrounded the CMSF mandate with strong suggestions – suggestions that were contained in the relevant budget document but not in the actual CMSF legislation – that this was to be done by reducing the amount of debt that students were accumulating. Also, the CMSF had to work with the provinces to these ends, not only in terms of directing the CMSF bursaries to worthy students, but also in needing to reach agreements with the provinces as to how the provincial savings resulting from the CMSF spending were to be re-invested. This context provides an important subtext to this evaluation.

In the agreements that the CMSF reached with each province, the direct impact of the CMSF scholarships was (except in Newfoundland and the Territories) to replace student loans with grants, with no increase in the amount of money immediately available to students to meet their schooling costs. In reducing student borrowing, however, the CMSF spending also provided savings to the provinces in the form of reduced spending on their own loan, grant, and debt remission programs, and any assessment of the ultimate impact of the program on access depends on how those savings were re-invested. This evaluation covers both the “direct” and full effects of this spending – that is, before and after taking the provincial reinvestments into account.

What were the direct impacts of CMSF spending on access? One access barrier likely to face Canadian students, especially in a time of substantially increased costs (e.g., tuition levels) is a lack of funds to pay their schooling-related expenses such as tuition fees and living expenses. But because CMSF money was used almost entirely to substitute grants for loans within aid packages of a given amount, rather than provide additional funding to students who may have needed it, the bursaries could have had no effect on the limitation on access caused by the lack of immediately-available funds or, simply put, the affordability of post-secondary education for those lacking access to the funds to go.

Another limitation on access, however, is the long-run cost of education (including the repayment of any student loans taken out after the student leaves school) which may make the rate of return to education unattractive to potential students, even for those possessing the financial resources to go if they so desire. To the degree that the substitution of CMSF bursaries for student loans has in fact reduced the long-run costs of post-secondary education (as students don't have to pay back a portion of their schooling costs), to the degree that the prospect of these future cost reductions has a significant impact on individuals' decisions about enrolling in post-secondary studies, and to degree students recognize these cost reductions when they are making their enrolment decisions (even though some of the debt remission programs work after the school year has started or even after it is completed and often depends on successful completion of the year), the CMSF funds may have increased access by effectively lowering its cost. But by their very nature, we believe these effects are likely to be relatively small and indirect.

Finally, some believe that access is limited by the debt aversion of potential students. That is, some individuals for whom post-secondary education yields a good rate of return (or is otherwise worth undertaking in terms of the benefits it yields) and who have the financial means of going to school (with the help of loans), may be deterred from doing so because they simply do not want to take on the debt required, perhaps out of concern for the uncertainty of their future earnings levels and, therefore, their ability to repay their loans. If such debt aversion is in fact important, the reduced borrowing resulting from the CMSF bursaries – again to the degree it is recognized at the point individuals are making their enrolment decisions – may have improved access through this effect as well. This conclusion is based partly on logical arguments. It also rests, however, on the fact that there is no solid empirical evidence that points to debt aversion as an important barrier to access (notwithstanding much discussion of debt levels in Canada, including in the media). Furthermore, we believe targeting assistance in repayment on those with low incomes who therefore need the aid is a much more efficient means of working against any debt aversion that does exist.

The direct impact of the CMSF on access therefore likely ranges from limited and indirect (where the CMSF money leads to a substitution of grants for loans) to non-existent (where it simply displaces provincial money). Considerably greater impact would almost certainly have resulted from putting the money into targeted grants for needy students and expanded lending to students from lower and middle families likely to face trouble meeting their schooling-related expenses, accompanied by assistance in repayment for those who need it based on their actual debt burdens. In short, if the CMSF had decided to provide scholarships or loans that were *in addition* to already available sources of student aid and/or targeted debt relief on lower income individuals facing substantial burdens in repayment rather than reducing debt levels across the board, even for those who go on to well paid jobs, the effects on access would likely have been stronger and more direct.

The direct impact of the CMSF awards on the nature of student financial aid in the provinces does not, however, reflect the *full* effect of the CMSF program, because the CMSF awards saved each province a considerable amount of money through the reduced spending on provincial grant, loan, and debt remission programs that resulted. In the agreements between the CMSF and the provinces, each province agreed to re-invest any such savings that were created by the CMSF awards – although in different ways and to varying degrees.

Any full understanding of the effects of the CMSF on access thus depends on those agreements and how they have been observed. It is important to note that in the absence of such agreements, the provinces could have spent the savings they realized from the CMSF in any way they wished – perhaps not only directly on students or some related area of post-secondary education, but on any other spending program, or even to help finance tax cuts. And indeed, the provinces might have been expected to prefer to use any funds freed up by the CMSF in accordance with their own general spending priorities, and not necessarily on students – especially in a context where federal transfers to the provinces had been greatly reduced through the 1990s (thus exacerbating provincial financial shortfalls). This is all the more the case since this federal initiative was launched with little or no consultation with the provinces, and in a situation where most provinces faced pressures to spend more on health care, to lower taxes, and to in fact spend money elsewhere than on post-secondary education, and student financial aid in particular.

Furthermore, a province wishing to divert as much of their CMSF-generated savings as possible would have been expected to channel its allocated CMSF bursaries into programs which resulted in the greatest displacement of provincial funds, and maximum provincial savings, in order to enjoy the greatest benefit from the funds freed up by the federal spending – to be spent as the individual province wished.

While it is beyond the scope of this evaluation to detail the actual re-investments stemming from the relevant CMSF-provincial agreements, the provinces appear to have used their savings in a number of different ways. A substantial portion of their savings seem to have indeed gone into various kinds of student financial aid, including replacing loans with grants (and in rare cases providing extra money for students to meet their schooling costs in one manner or another). Other re-investments, however, went into different kinds of spending on post-secondary education, including general transfers to institutions. In still other cases, there appears to have been little or no re-investment in education at all. Overall, the effects of the provincial re-investments on access are, for the reasons previously argued, likely to have been relatively limited relative to the dollar amounts spent, although the record varies a great deal by province.

It is perhaps understandable, given the focus on debt reduction that surrounded the creation of the CMSF, that the scholarships were used almost entirely only to reduce debt without providing additional and immediately available funds to students. This result, however, was not inevitable. Other options were, and are, available and some of those options would almost surely have a greater impact on post-secondary access. In short, the approximately $284 million spent by the CMSF could, with the provinces cooperation, have been spent in ways that would likely have had much more effect on access than it has had.

For example, even within the framework of the enabling legislation – although while admittedly thus giving precedence to the access goal set out there over the debt reduction goal set out in the initial budget – the CMSF grants could have been directed towards un-met need in the existing student financial aid system, rather than reducing debt. And provinces could have re-invested any savings from this spending in a way that had much more effect on access, first directing those re-investments towards student financial aid in general, and then targeting that spending in the ways that would likely have the greatest effect on access. More specific suggestions along these lines are presented in the post-script to this report.

7 DATA COLLECTION AND REPORTING

INTRODUCTION

The evaluation of the Foundation's performance is to include a review of the CMSF actions in "*setting up data collection and reporting systems that will permit a proper evaluation of its performance over the long term*".

The Foundation's program for data collection, reporting and research is rooted in the legislation establishing the Foundation. It requires that the Foundation produce annual reports to include "*an evaluation of the results achieved by the granting of scholarships during the year*" *36(d)*.

In addition, the Smith report, which guided the establishment of the administrative details for the Foundation, recognized that the Foundation would need research capacity, not only to meet the legislative requirement, but also to evaluate and design alternative means to fulfill its mandate. The Smith report stated that "the Foundation will need the *capacity to analyze large data bases and to research implications of various policy options* in the provision of student assistance."[italics added]. Much of this capacity was expected to come from "being able to tap into current work in provincial and federal governments...". By using these data sources, the Foundation would be able avoid costly investments in its own research infrastructure. Smith went on to advise, however, that "the large scale and novelty of the Foundation's programs and the *lack of a strong base of research on post-secondary education in Canada* mean the Foundation will have to pay some attention to developing its own expertise on this matter." (Smith, 44)

This evaluation of the Foundation's record in terms of data collection and research is organized under three topics:

:: Data received from the provinces: its nature and quality and the uses to which it has been put:
:: Research the Foundation has carried out itself or contracted with external consultants
:: The Foundation' contribution to other data-gathering exercises.

DATA RECEIVED FROM THE PROVINCES

An important component in the agreements with the provinces and territories is that the Foundation will be provided with the following information on the individual students who receive the CMSF grants: name, address, social insurance number, educational institution attended, value of assessed need, effective period of enrolment, field of study, amount of recommended award. (See, for example, the agreement with the Province of Alberta in Appendix 1.)

In addition, most of the provinces provide the Foundation with other personal characteristics such as gender and marital (civil) status. But because some provinces do not provide these latter data – namely, British Columbia and Québec – the published data on recipients are incomplete. And none of the provinces provide data on age.

This deficiency exists, even though the Foundation has agreed that the personal information it receives from the province or territory shall only be used for the purposes of determining eligibility, awarding and distributing scholarships, and "conducting studies and statistical analysis, using aggregate data only, for the purposes of program evaluation and improvement".

The constraints on data available to the Foundation arise because the agreements stated that the provinces would provide only such data as are required to administer the CMSF program. But this principle takes a very narrow view of what is necessary to “administer” in that it reduces the ability to evaluate and improve the design of the program.

The consequence of this limitation on data from the provinces is that, as the preceding chapter in this report has shown, it is impossible to determine anything about the effect of the CMSF program on the composition of those who enjoy access to post-secondary education. It is, however, possible to estimate the aggregate debt remission in each jurisdiction, and to calculate aggregate “unmet need” as defined by the difference between the assessed financial need and the amount provided in student assistance.

But a critical aspect of the “access” issue is the diversity in student participation across various socio-demographic groups. Nothing can be learned about this matter from the provincial data. On the other hand, Smith foresaw the mutual advantages if the CMSF were able to `tap into’ the provincial databases.

Data collected by the CMSF makes it possible, with some difficulty, to analyze broad, aggregate implications of the particular arrangements in the current provincial agreements. Thus, this report has been able to present conclusions with respect to displacement, net benefit, and re-investment effects – showing where and how there have been real changes in expenditure on student assistance, even though it has not been able to draw any precise conclusions about the impact on access.

RESEARCH PROGRAM

The Foundation’s research program is stated to have two main purposes:

:: to support the legally mandated evaluation process which must take place by June 2003;
:: to support efforts to improve the Foundation’s products and make them more useful to clients.

In the introduction to the description of its research program, the CMSF quite properly notes that if it cannot find answers to questions about the influence of financial condition on students’ decisions “*it is impossible to evaluate the effect the Foundation has had and equally difficult to evaluate the merit of other possible program designs*.”

The research program is titled “Does Money Matter?”, but this cryptic title might be better expressed as “Does Money Matter: when, where, to whom – and even why?” to convey the differential impact of forms and amount of assistance across various categories.

The Foundation does not perform research in-house; research projects are tendered. Bids from researchers across Canada are received and considered through a competitive process. And in order to assure the quality of research results, each piece of research is reviewed and critiqued by a panel of five experts and academics prior to publication. This process, of contracting out its research, is not only much more cost-effective than mounting the research infrastructure in-house; it also enables the CMSF to arrive at useful research results much more quickly.

The Foundation also operates research partnerships on specific projects with other organizations to reduce costs and avoid duplication of effort. Two research partnerships have been arranged with the Council of Ministers of Education, Canada. Others partnerships are under discussion.

Any research contracted by the Foundation related to access and the effects of financial aid will be of interest to provincial and territorial governments, which run their own student assistance program, and to stakeholder groups which work in the field of access to education.

The design of the research program, in terms of specific topics for study, followed from a CMSF conference among experts in the field (i.e., researchers) and various stakeholders in 2001. In preparation for the conference, a review of the literature on access to post-secondary education was prepared that identified what was known, and what was not known, on this issue (Looker and Lowe). The gaps in current knowledge and understanding were concisely enunciated and became the research menu.

At a following CMSF conference (5-6 April, 2002), a cross-section of experts and stakeholders elaborated on the issues and provided some indication of priorities (Sussex Circle).

The research program has completed, has underway, or will be commencing a total of nineteen research projects grouped under three themes:

:: **Individuals' Access to Post-Secondary Education** – individuals' decisions to pursue or not pursue PSE. Research is focused on Canadian students and their social and economic background; on youth who choose not to attend PSE and their reasons for not doing so; on recipients of student assistance programs and the effects of various student assistance interventions; and finally on student outcomes, including the effects (if any) of educational debt obligations.

:: **The Social and Economic Context for Access** – examines the contexts in which individuals make their decision to access PSE; issues of a macro-policy nature that may effect aggregate demand for PSE. It also examines information issues to explore how parental behavior and ethnicity may affect the way young people make decisions about PSE.

:: **Canada in International Perspective** – puts the other research into a comparative international context.

The program appears to be making good use of existing data sources, such as the School Leavers' Survey (1991) and Follow-up (1995). In addition, the several federal and provincial student assistance databases are being examined for answers to student borrowing, debt, default, and educational persistence. Similarly, the research is collating the many surveys of graduates conducted by individual educational institutions, to construct an overview that can be compared with the National Graduates Survey.

More detail on the Foundation's research program can be found on the CMSF website in the link to the research program. (www.millenniumscholarships.ca)

The CMSF plans to disseminate the findings from its research program through three types of publications: what it terms the Foundation Access Factbook; quarterly releases of papers in a series called Best Available Evidence; and Occasional Papers.

The purpose of the Factbook (to be published biennially) was to present a large variety of quantitative and qualitative data on students and student assistance programs in a single publication. The first such publication appeared in September, 2002, and was titled "The Price of Knowledge".

The publication is compendium-like in the expansiveness of issues pertaining to post-secondary education it covers. This ranges from a simple documentation of enrolment rates in post-secondary education over time, to the intricacies of how the student financial aid system works, to a review of recent evidence of the social basis of participation, and beyond. It is largely fact-driven, but in many instances does not shrink from offering interpretations of what the data reveal. The book has received a good deal of media attention, and could well become a standard general reference to those interested in post-secondary education in this country – stirring certain debates as it circulates and gets read.

Interviews with students – done within two weeks of the release of *Price of Knowledge* – indicated that students generally were critical of funds being used for research, and especially because the press release was unfavourable to their position. Examples of the critical comments include the following: “Some of the stuff it’s [the CMSF] doing seems redundant, like the research program. Why is the Foundation doing that?” “The research data were distorted and inappropriate”; “We don’t see how the research fits in with those goals [access and debt reduction]”; “The research program is alienating students”; but a different view was also expressed: “The CMSF’s research is terrific and should continue.”

Overall, the CMSF research program is worthy of high commendation. It has harnessed much of the nation’s existing expertise regarding post-secondary education to pursue a number of focused, multi-disciplinary, and highly relevant lines of investigation that have lead to important advances in our understanding of the relevant issues. More of the same over the remaining years of the CMSF would represent a significant contribution to the nation’s knowledge in this important area. The policy-relevance of this work is especially worthy of note.

NEW DATA DEVELOPMENTS

Although the CMSF does not have the sorts of funds required to sponsor the sorts of new large and expensive databases required to address some of the more fundamental issues pertaining to access, and has rightly left those developments to Statistics Canada, it has been astute in contributing to a small number of specific data-gathering exercises that should fill certain important data gaps.

Firstly, the Foundation has recently completed a major survey of student income and expenditure, following a panel of a large number of students over a full year. This will enable the CMSF to have current information on student income from sources beyond governmental programs, including parental contributions and private borrowing directly from financial institutions and through credit cards. The Foundation has also commissioned an initial research report based on that survey that promises to bring some interesting discussions in to the public domain.

This said, the survey suffers from not necessarily being fully representative of the general student population. This shortcoming derives from the sample selection procedure: random digit dialing right around September 11, 2001. Such a limitation is, however, inevitable for a relatively low-cost exercise of this sort, and should not be the source of criticism; rather, a recognition that the findings stemming from these data should be interpreted in a cautious manner, perhaps feeding into other research projects, and other data-gathering exercises, down the road.

The Foundation has also decided to participate in two national surveys of students at universities and colleges. First, it has contributed $50,000 to the Canada Undergraduate Survey Consortium (CUSC) based at the University of Manitoba. This grouping includes twenty-five institutions across Canada that will survey 12,000 students in three components of the program: entering students, all students, and graduating students.

The Foundation is also contributing another $50,000 to an extension of the consortium that will include community colleges – eighteen institutions – and will survey 6,000 students. These two surveys are expected to yield a rich body of data for detailed analysis of student finance.

8 CONCLUSIONS

The Foundation was established to administer the Millennium Scholarship Program that was established by federal legislation. This review has had, as its purpose, to review the performance of the Foundation in carrying out its mandate, as set out in the legislation, in political commitments by the Government of Canada, and in financing agreement with the federal Finance Department. This has required us to assess the Foundation's performance while avoiding commentary on the mandate itself.

Before summarizing the research conclusions, it is perhaps worth recalling that the first announcements of the Program attracted harsh criticisms from a number of provinces. There was consequently a swirl of political controversy in the immediate aftermath of the announcement. The decision of the federal government to set up an independent agency to manage the Program was in part motivated by a desire to secure more provincial and territorial acceptance of and cooperation in the implementation of the Program than might have otherwise been possible. That cooperation has been secured, as noted below. In and of itself, this has been an advantage in having an independent agency.

The various elements of the Foundation's mandate not only give to it the authority and tools to act but also constrain it in various ways. The fact that the Foundation works primarily through the provinces and territories entails other constraints as well. The provinces and territories have very large constitutional responsibilities in relation to post-secondary education. It is thus natural for them to have their own strong preferences about how to do business with the Foundation, especially considering they have long-established administrative systems for operating their own student aid programs. Both sets of constraints are also part of the reality within which the Foundation has had to operate. In addition, provinces and territories will have their policy priorities.

A further consideration in the above analysis has been that different elements of the Foundation's mandate appear to be in tension with other elements. While the existence of competing purposes and even methods is not an unusual state of affairs in the real world, this was a further consideration in reviewing the Foundation.

One result of the tensions and constraints is that, in cases where program outcomes have been less than they might have been, it was often difficult to discern whether these results were due to the tensions/constraints and where they were not. This is reflected in these conclusions.

The principal conclusions are organized below under two headings: governance and finance; and results. In the real world, however, these are closely linked with one another. This is then followed by a summary analysis that lists a number of the key tasks that the Foundation was committed to undertake, related to either its legal or political mandate, and our cryptic assessment of our conclusions in relation to those commitments.

Governance and Finance:

1. The Foundation is required to do its tasks in way that is consistent with certain accountability standards. It is doing the kind of reporting to its Members, its board, Parliament and the public in a way that meets those standards. Nonetheless, there are grounds for being concerned about the broad oversight of the Foundation. More specifically, a number of deficiencies in the collective functioning of the Members were drawn to the team's attention. The root of the problem appears to be structural and thus outside the terms of reference for this evaluation.

2. The legislation authorizes the Foundation to enter into agreements with provinces and territories to ensure that the CM bursaries are delivered in a way that respects provincial jurisdiction, that complements provincial student financial assistance programs, and that assures that interactions between its programs and needs-based programs run by the provinces are worked out in a way that benefits students. The Foundation has agreements with all provinces and territories that meet these standards.

3. The Foundation has been flexible in striking its arrangements with the provinces and territories. By working with and through provincial and territorial governments, it has adopted the provincial criteria for determining student need. This means that the definition of need varies somewhat across the country according to provincial and territorial program specifications. The costs of this unevenness in definition appear to be outweighed by the benefits of respecting differences in priorities of provinces (which are constitutionally responsible for education) and thus securing their cooperation in ensuring integration between federal and provincial/territorial programming. The provisions of the arrangements with provinces in relation to displacement and re-investment similarly suggest flexibility on the part of the Foundation in its dealings with provinces and territories. Indeed, some might argue that the Foundation should be more forceful with the provinces/territories on this latter point (about which more below).

4. In contrast to this flexibility on key program features and related issues of re-investment, a number of provinces find the Foundation too inflexible in its dealings with them in relation to the details of program delivery. Indeed some provinces are highly critical of the Foundation on this point. Our text has provided some examples. There should be a review of the provincial complaints to determine their merit and whether, in the event that they are seen to have merit, they can be accommodated within the Foundation’s existing legislative framework.

5. With regard to finances, the Foundation is acting in a way that is consistent with its arrangements with the federal Department of Finance. It is acting prudently in its investment activities and incurring reasonable costs in relation to its investment activities.

6. The Foundation is operating in a manner that results in roughly the same annual spending on student bursaries and scholarships in *nominal* terms for the planned remaining life of the program. Consideration should be given to allocating the funding over the planned life of the Millennium Scholarship program such that annual spending on student aid is maintained at the same annual level in real (that is, inflation-adjusted) terms. In considering this question, a crucial consideration is whether or not the Program is likely to be extended. If it is not, then the current practice may be reasonable as it is at least consistent with the idea of phasing out. If it is likely to be extended with a further capital investment, the argument may point in the opposite direction.

7. The review team was asked to examine the extent to which the Foundation has capitalized on its independent corporate status. The Foundation is an innovative, well-managed organization. Following the rapid launch of its principal, bursary, program, it developed and implemented several new initiatives in succession. This capacity for rapid innovation is one of the benefits of the Foundation's independent corporate status. At the same time, it led a number of the stakeholders interviewed to question whether – in its research and fundraising initiatives, for example – the Foundation has gone beyond its mandate. Have these new initiatives fulfilled the Foundation's mandate or has there been “mandate creep”? Deficiencies in the Foundation's governance structure (notably, in the role of Members as shareholders), the roots of which lie outside the terms of reference for this evaluation, mean that the answer is unclear. The issue will undoubtedly arise as the expiry of the Foundation's mandate approaches.

Results

8. The Foundation has a legislative mandate to deliver bursaries to eligible post-secondary students who are in financial need and who demonstrate merit according to certain broad parameters (number of bursaries, average value, in both official languages etc.) and in an administratively efficient fashion. The Foundation is fulfilling this legislative mandate. It was quick off the mark and is successfully getting the funds to the students.

9. The Foundation has a legislative mandate to do spend up to 5 percent of its operating budget on scholarships for students who demonstrate exceptional merit. Since 2001, it has awarded approximately 900 scholarships annually, based on academic achievement, social responsibility and engagement, leadership, and other factors. The awards are adjudicated by volunteers across the country. This has been a highly successful program and has earned wide praise from those involved, particularly in the university community.

10. There appears to be a tension between the legislative requirements to improve access and the Government of Canada commitments to focus on reducing student debt. The analysis of access and debt loads has led to two main conclusions. First, the CMSF spending has reduced debt loads, but has unlikely improved access very much. The reason is that, in almost all cases, the CMSF scholarships provided no direct additional money to students to help them meet their costs of education. Instead, the scholarships changed only the form of the financial support students received from loan to grant, or otherwise reduced their debt loads by forgiving loans already taken out. A much greater effect on access would almost certainly have been achieved had the money been directed toward unmet financial need that currently exists in the student financial aid system, thus providing additional support to students. Going this alternative spending route would, however, have required provincial agreement. In this regard, we emphasize that it is impossible for us to disentangle the contributions of the various constraints faced by the Foundation, including the need to work with the provinces in deciding how the scholarships were to be directed, from the Foundation's own actions in terms of evaluating the way in which the money was spent. Put in other terms, re-directing the scholarship money towards unmet need rather than student debt would have required the agreement of the provinces, and it is not clear that such agreement would have necessarily been forthcoming.

11. The second reason that the effect on access seems small relates to the issue of reinvestment. Maximizing access has not only to do with the nature of the CMFS spending (reducing debt versus providing more money, etc.). It also has to do with the extent of displacement of provincial and territorial financial assistance programs for students and the success, or otherwise, of the Foundation in negotiating that provincial/territorial "savings" in provincial student aid expenditures stemming from CMSF spending be reinvested in programs that benefit students in a way that increases access. In this regard, the available data indicate that CMFS spending resulted in net direct benefit of $119 million (principally the additional amount of student debt reduction before taking reinvestment into account). Provincial reinvestments are claimed to have been greater than their savings ($231 million versus $185 million) – a surprising and perhaps not entirely plausible number. In any case, of that $231 million total, $94 million, or 41 percent, went into "increases in institutional budgets", $12.8 million, or 5.6 percent was in "other areas or uncommitted", and $125 million, or 54.2 percent, was in student financial assistance. Even putting aside any doubts that the re-investment numbers are overstated, the total increase in direct student financial assistance (i.e., the initial net benefit of $119 million plus the re-investments of $125 million, or $244 million) was therefore $40 million less than total CMSF spending of $284 million. In addition, a large portion of reinvestment in direct student financial assistance has been in the form of debt reduction programs of the type described above. This kind of reinvestment would again be expected to have limited effects on increasing access (especially as compared to making more money available to students to meet their schooling costs). It can be concluded, therefore, that the effect of the reinvestment on access was also small.

12. A further complication is that determining whether the reinvestment commitments are being fully respected is well beyond the resources that are available to the evaluation team.

13. The Foundation is required to evaluate the results of its scholarship program, but its partnership agreements have sharply limited the student data available to it. Consequently, the Foundation has developed a commendable research program that combines existing knowledge with an exploration of empirical issues and policy options that has the potential for truly improving access to post-secondary education.

Another way of formulating conclusions is to assess the Foundation's performance relative to the legal and political instructions that govern its activities and relative to the more general legal and political framework within which it works (for example on matters of accountability). Table 10 below is a cryptic evaluation of performance. Appendix 7 provides a summary table of some other items we reviewed- items that, however, received less intense scrutiny from the evaluation team.

TABLE 10
Summary Assessment of Main Commitments

REQUIREMENT	REFERENCE	FOUNDATION ACTION
To grant scholarships in a fair and equitable manner across Canada	Section 5(2)	Foundation allocates provincial shares based on population shares. This provides a form of equity. A disadvantage of this approach is that it does not take account of differing needs among provinces and territories. But this disadvantage is more than offset by benefits of federal-provincial-territorial program coherence within each jurisdiction and of simplicity.
To be accountable to 15 members chosen from across Canada	Sections 7, 12-15	Members, directors, and officers of the Foundation have been meticulous in meeting legislative requirements for accountability. (See also assessment on specifics in Appendix 7.) This is a narrow perspective, however, of accountability. The governance model embodied in the legislation does not provide genuine accountability in the larger sense.
To make every effort to keep the costs and expenses of carrying on its business and affairs as low as reasonably possible	Section 20(2)	There are few suitable comparators. Comparisons available suggest that the ratio of the Foundation's cumulative administrative expenses to cumulative student awards is reasonably low. That said, the some of the Foundation's recent undertakings are causing its average costs per award to rise slightly.
To accept donations of money subject to certain conditions	Sections 21	This has been accomplished as evidenced by the receipt of the World Petroleum Congress donation.
To establish investment policies, standards and procedures that a reasonably prudent person would apply in respect of a portfolio of investments	Section 22	The assessment indicates that this standard has been met and is evidenced in minutes of the Audit Committee and Board.

REQUIREMENT	REFERENCE	FOUNDATION ACTION
To make every reasonable effort to grant the amount paid to it and any income arising from the investment of the amount as scholarships over a ten year period	Section 26	This is accomplished and is evidenced by the disbursement plan in place
To ensure that at least 95 per cent of its scholarships are paid to persons who are in financial need AND demonstrate merit	Section 27(1)(d) and Section 27(2)	Foundation decided that 95 per cent of its awards would be paid to persons who are in financial need and demonstrated merit. The Bursary program's definition of "merit" is linked to successful completion of 60% of a full year of post-secondary education. Once this basic test is satisfied, selection of recipients is based entirely on "need" as assessed by the provinces.
To grant up to 5 percent of the funds it expects to grant as scholarships in the year to persons who demonstrate exceptional merit even if those persons are not in financial need	Section 27(2)	This has been achieved through a well-conceived, volunteer-adjudicated Excellence Awards programme.
To grant scholarships in a manner that complements existing provincial student financial assistance programs and that avoids duplication with the processes of those programs	Section 28	This has been accomplished. The Foundation signed agreements with 13 provincial and territorial governments whereby they receive applications, assess need, recommend students for awards, inform students of the source of their awards and distribute funds to students.
To enter into agreements with provincial ministers respecting criteria for the determination of financial need and merit	Section 29(1)	The Foundation signed agreements with 13 provincial and territorial governments under which Foundation accepts the provincial and territorial determination of students' "need" and is given access to provincial/ territorial evaluations of student need. These agreements also include a definition of "merit" as discussed above (see sections 27(1)(d) and 27(2)).
To offer services in both official languages	Section 44	Service in both official languages is available based on interviews with clients and stakeholders, and perusal of publications.

REQUIREMENT	REFERENCE	FOUNDATION ACTION
Funding Agreement		
Abide by the terms of the Funding Agreement with the Dept. of Finance		The terms of the agreement are met based on an examination of the requirements of that agreement and of the types of financial assets held as listed in the Bimcor reports.
Meeting Non-legislative Commitments from the Government of Canada		
Beginning in 2000 to provide 100,000 scholarships averaging $3000 each year to lower and middle income Canadians	Budget '98	In its first two years of operations, the Foundation granted just over 90,000 awards annually with an average value in the first year of just over $3,000 and in the second year of $3,250. The bursaries in some provinces provide a flat $3,000 while in others they range from $2,000-$4,000 but still satisfy the $3,000 average.
Reduce the student debt	Budget '98	Student debt has indeed been lowered relative to the level it otherwise would have been. This is a logical result of the money being used almost exclusively to remit existing loans or replace borrowing with non-repayable grants.
Improve access to post-secondary education (will include injection of additional funds into student financial assistance system)	This is a generally understood goal of the bursary program.	The effects have probably been relatively small. First, bursaries went almost entirely towards debt reduction for those already in the system, without increasing the amount of funds available to needy students. Such a substitution of grants for loans is unlikely to have much effect on access, especially in comparison to providing more and/or larger grants to students' with un-met financial need or students from groups with historically low participation rates. Second, a substantial portion of the savings in provincial student aid programs that resulted from CMSF spending was not reinvested in programs related to student access. Third, of the provincial reinvestments that did go into access-related programs, most have been (again) directed towards debt reduction and are therefore similarly unlikely to have had very strong effects on access relative to increasing the amount of assistance available to needy students in the form of grants (or loans).
Respect provincial jurisdiction and student financial assistance priorities	Budget '98	This is generally achieved. The Foundation has adopted provincial definitions of need and provinces determine which students are to receive awards.

REQUIREMENT	REFERENCE	FOUNDATION ACTION
Develop “a partnership of parents, of educators, of the private sector, and of provincial and federal governments.”	Budget ‘98	The record is uneven. The Foundation has developed functional professional relationships with provinces and territories. These enable the program to be delivered in a reasonably cost efficient manner (as discussed above). Relations with several provinces are, however, not friendly. Relations with student organizations are mixed and not a lot has been done to forge relations with post-secondary educators or parents.
Use its position as a private foundation at arm’s length from the government to take reasonable risks, innovate and achieve greater efficiency, flexibility, citizen participation and client satisfaction than is possible under government rules and regulations.	Finance Dept, as quoted by AG in her “observations on 2000-01 financial statements”	The Foundation has been innovative and flexible in many respects and appears to have taken reasonable risks. It has sought to encourage participation by stakeholders and, particularly through the excellence awards, other citizens. The pace of program development and implementation at the Foundation would have been difficult to achieve under government rules and regulations. It was not possible to survey clients, but interviews with a cross-section of student leaders suggested that their satisfaction is very mixed. The Foundation has achieved economy, particularly in the administration of the bursary program, but whether it has achieved efficiency with respect to desired outcomes is not clear.
Ensure that where interactions have occurred between need-based programs administered by the Foundation and need-based programs run by the provinces, the Foundation has developed solutions that benefit students	Not a public commitment, but clearly expected of the Foundation by most parties	The Foundation disbursed its awards according to provincial assessment of student need. This integrated approach to student aid simplified the application process for students. To the extent that the provincial approach to assessing need benefited students, the Foundation benefited students.
To earn additional income by entering into a program of securities lending	Financing agreement with the federal government.	A program is in place (Royal Trust agreement). Additional income is being earned (based on annual financial reports).
Set up data collection and reporting systems that will permit a proper evaluation of long term performance	A goal that the Foundation set for itself.	The Foundation collects no data beyond those reported in the Foundation's annual reports. Provinces are constrained in collecting and reporting information by privacy regulations. An evaluation of the Foundation's impact is not possible for this reason, and also because most students’ receive other financial assistance in addition to CMSF awards.

APPENDIX 1

FOUNDATION AGREEMENT WITH THE PROVINCE OF ALBERTA

Agreement Between the Canada Millennium Scholarship Foundation and the Province of Alberta

RECITALS

Whereas the Canada Millennium Scholarship Foundation (hereinafter referred to as “the Foundation”) was created by the *Budget Implementation Act, 1998*, Part I, enacted by the Parliament of Canada (hereinafter referred to as “the Act”) and was endowed with $2.5 Billion;

Whereas the Foundation was created with the object and purpose of providing scholarships, for a period of ten years from the day on which the first scholarship is granted, to students who are in financial need and demonstrate merit;

Whereas section 28 of the Act provides that the Foundation shall grant scholarships in a manner that complements existing provincial student financial assistance programs and that avoids duplication with the processes of those programs, to the extent that it is possible to do so;

Whereas subsection 29 (1) of the Act provides that if the Foundation is satisfied that it is consistent with its objects and purposes to do so, the Foundation may enter into an agreement with a provincial minister respecting:

(A) criteria for the determination of financial need and merit; and

(B) the provision to the Foundation of names of residents of the province who are determined under those criteria to be qualified to receive a scholarship from the Foundation and any supporting information that the Foundation considers appropriate;

Whereas the Minister of Advanced Education and Career Development of the Government of Alberta may, pursuant to section 10 of the Government Organization Act of the Government of Alberta, enter into agreements on or in connection with any policies, programs, services or other matters under the administration of the Minister;

Whereas the Minister of Advanced Education and Career Development of the Government of Alberta may, pursuant to Sections 38 (1) (d) and 38 (1) (j) of the Freedom of Information and Protection of Privacy Act of the Government of Alberta, disclose personal information for the purpose of complying with an agreement or of determining an individual's suitability or eligibility for a program or benefit;

Whereas the Foundation and the Province of Alberta wish to ensure that the Foundation's awards are distributed to students resident in Alberta in an efficient manner;

Therefore, the Foundation and the Province of Alberta have decided to enter into an agreement concerning the administration of awards made by the Foundation to students resident in Alberta.

1.0 PURPOSE OF THE AGREEMENT

The purpose of this Agreement is to establish the terms and conditions of the award and distribution of the Canada Millennium Scholarship Foundation’s General and Exceptional Merit Awards in the Province of Alberta, and the respective roles of the Canada Millennium Scholarship Foundation and the Province of Alberta in the delivery of said Awards.

2.0 DEFINITIONS

2.1 The definitions in this section apply in this Agreement.

"the Act" means the *Budget Implementation Act, 1998*.

"approved course of studies" means a course of studies that has been designated as eligible under the Canada Student Loans program.

"eligible institutions" means institutions that have been designated as eligible under the Canada Student Loans Program.

"Exceptional Merit Awards" means scholarships awarded by the Foundation to students who demonstrate exceptional merit irrespective of financial need.

"the Foundation" means the Canada Millennium Scholarship Foundation.

"full time student" means a student taking a number of courses sufficient to be deemed a full time student by the Provincial Act

"General Awards" means scholarships awarded by the Foundation to student who are in financial need and who demonstrate merit.

"Province" means the Province of Alberta

"Provincial Act" means the provincial legislation relating to eligibility for student assistance, specifically the *Students Finance Act* of the Government of Alberta.

"resident" means having the status of resident within the meaning of the Provincial Act

"share of population of Canada" means share of population as represented by the most recently available census data.

"year" means a calendar year.

"year of studies" means at least two semesters of studies.

3.0 GENERAL AWARDS

3.1 General Awards are scholarships which are awarded to persons who meet the requirements of Section 27(1) of the Act.

3.2 Students who are eligible for student assistance in their province of residence are eligible for the Foundation's General Awards.

3.3 The merit requirement mentioned in paragraph (d) of Section 27(1) of the Act will be satisfied by successful completion within the last ten years of 60 percent of a full year of an approved course of studies at an eligible Canadian post-secondary institution and through continued enrollment in good standing in an approved course of studies as a full time student.

3.4 Need shall be established in accordance with the policies established under the authority of the Provincial Act.

3.5 In making awards, preference shall be given to students in the greatest need.

3.6 In no case shall an award be made for an amount less than $2,000.

4.0 EXCEPTIONAL MERIT AWARDS

4.1 Exceptional Merit Awards are scholarships which are awarded in accordance with Section 27(2) of the Act.

4.2 The Board of Directors of the Foundation will develop criteria for "merit" for the purposes of the Exceptional Merit Awards.

4.3 There shall be three classes of Exceptional Merit Awards:

4.3.1. Class One: Awards for which nominations will be recommended through committees operating at the local or regional level;
4.3.2. Class Two: Awards for which nominations will be recommended through a committee operating at the provincial or territorial level;
4.3.3. Class Three: Awards for which nominations shall be made by a national committee chosen by the Board of Directors of the Foundation.

5.0 UNDERTAKING OF THE PROVINCE

5.1 The Province will provide the Foundation with names of residents who qualify for General Awards under the criteria defined in section 3 of this Agreement.

5.2 Notwithstanding sections 3.2 and 6.7 of this Agreement, and in conformity with Subsection 29(2) of the Act, the Province will ensure that in the process of identifying scholarship nominees, no person shall be disqualified from being considered for a scholarship because they choose to study outside their ordinary province of residence at an institution that has been designated for the purposes of the Canada Student Loans Program.

5.3 The Province will provide the Foundation with the following information concerning the identified General Award nominees by 15 October of each year:

(i) name
(ii) address
(iii) social insurance number
(iv) educational institution attended
(v) value of assessed need
(vi) effective period of enrollment
(vii) field of study
(viii) amount of recommended award

5.4 The Province will confirm that Award recipients are in good standing at their post-secondary institution in the current year of study by 15 January of each year of studies.

5.5 The Province will issue and distribute cheques to award recipients as determined by the Foundation under sections of 6.8 and 6.9 of this Agreement.

5.6 The Province will make such changes as are necessary to applications for student financial assistance in order that the Province may legally forward information collected for the purpose of determining student need to the Foundation for the purpose of awarding scholarships.

5.7 The Province will exercise due diligence to ensure that its annual General Awards allocation is fully utilized for the purpose of granting scholarships to students who are in need and demonstrate merit in the year for which it is received.

6.0 UNDERTAKING OF THE FOUNDATION

6.1 The Foundation will provide from its overall annual allocation for General Awards a separate annual General Awards allocation for the exclusive benefit of students resident in the Province. The size of this allocation, expressed as a percentage of the Foundation's overall annual General Awards allocation, will be equal to the Province's share of the population of Canada.

6.2 The Foundation agrees to increase the annual allocation mentioned in section 6.1 of this Agreement at the request of the Minister of Advanced Education and Career Development of the Province on condition that the Province provides the necessary funds from its own resources. The Foundation will reimburse the Province for funds advanced in this manner up to an amount equal to five per cent of the Province's annual General Awards allocation. This reimbursement shall represent the first charge on the Province's General Awards allocation of the following year.

6.3 The Foundation undertakes that any unused portion of the annual provincial General Awards allocation shall be carried forward and added to the provincial General Awards allocation for the following year.

6.4 The Foundation will provide from its overall annual allocation for Class One Exceptional Merit Awards a separate annual Class One Exceptional Merit Awards allocation for the exclusive benefit of students resident in the Province. The size of this allocation, expressed as a percentage of the Foundation's overall annual Class One Exceptional Merit Awards allocation, will be equal to the Province's share of the population of Canada.

6.5 The Foundation will provide from its overall annual allocation for Class Two Exceptional Merit Awards a separate annual Class Two Exceptional Merit Awards allocation for the exclusive benefit of students resident in the Province. The size of this allocation, expressed as a percentage of the Foundation's overall annual Class Two Exceptional Merit Awards allocation, will be equal to the Province's share of the population of Canada.

6.6 The Foundation will inform the Province of the allocations mentioned in paragraphs 6.1, 6.4 and 6.5 of this Agreement on a rolling three-year basis.

6.7 The Foundation undertakes to accept the determination of students' need by the Province based on the criteria established under the authority of the Provincial Act.

6.8 The Foundation will consult annually with the Province on the establishment of a need threshold for the General Awards in order to reconcile the number of award winners with the provincial annuel General Awards. This reconciliation shall be done in accordance with Appendix A of this Agreement.

6.9 Upon receipt of the information referred to in Sections 5.1 and 5.3 of this Agreement, the Foundation will authorize General Awards to the persons identified by the Province.

6.10 The Foundation will consult with the Province in order to find an equitable and efficient method of nominating recipients of Exceptional Merit Awards within the Province.

6.11 The Foundation will forward a payment in the full amount of the provincial allocation of General Awards to the Treasurer of the Province, in trust for General Award recipients who are resident in the Province, subject to agreement on appropriate visibility for the Foundation and its activities in the Province.

6.12 The Foundation will pay the Province $250,000 a year for the cost of materials and supplies, postage, cheque production, systems maintenance, administrative assistance to post-secondary institutions, advertising and all other activities directly related to the Province's participation in the administration of the Foundation’s Awards. The Foundation will also pay $120,000 to the Province for the one-time cost of reprogramming its information systems for the administration of the Foundation's awards.

7.0 DATA EXCHANGE AND VERIFICATION

7.1 Subject to compliance with laws relating to the collection, use, disclosure and protection and disclosure of information, including the *Freedom of Information and Protection of Privacy Act* of the Government of Alberta, the Foundation and the Province undertake to exchange the information needed by each party in order to implement the present Agreement.

7.2 The Foundation agrees that all personal information it receives from the Province shall only be used for the purposes of:

7.2.1 determining eligibility for the Foundation awards;
7.2.2 awarding and distributing scholarships;
7.2.3 conducting studies and statistical analysis, using aggregate data only, for the purposes of program evaluation and improvement.

7.3 The Province undertakes to allow the Foundation to periodically and thoroughly inspect student assistance information to ensure that the terms and conditions of the Agreement are being respected. The terms of such an inspection will be developed by the Province and the Foundation in compliance with laws relating to the protection and disclosure of information, including the *Freedom of Information and Protection of Privacy Act* of the Government of Alberta.

8.0 CONFIDENTIALITY, SECURITY AND DISPOSITION

8.1 The Parties undertake to maintain, respect and protect the confidentiality of the personal information received under this Agreement and not to release it to any person unless such release is authorized by law or with the consent of the student. The parties shall ensure that, in the handling and use of information exchanged under this Agreement, their officers, employees, agents and contractors comply with the terms and conditions of this Agreement and with Part 2 of the *Freedom of Information and Protection of Privacy Act* of the Government of Alberta.

8.2 The Parties agree to take all necessary steps to ensure reasonable security of the personal information used and disclosed under this Agreement.

8.3 Any personal information subject to this Agreement will be retained and disposed of in compliance with laws relating to the retention and disposition of personal information, including the *Freedom of Information and Protection of Privacy Act* of the Government of Alberta.

9.0 EQUALITY OF TREATMENT

9.1 During the term of this Agreement, if a province or territory other than the Province of Alberta negotiates an agreement for the administration of the General and Exceptional Merit Awards of the Foundation and that agreement is more favourable to that province or territory than this Agreement, the Foundation agrees, upon the request of the Government of Alberta to amend this Agreement in order to afford similar treatment to the Province of Alberta.

10.0 PERIOD OF AGREEMENT

10.1 This Agreement shall be effective from the day of signing until January 1, 2010.

11.0 AMENDMENT

11.1 This Agreement may be amended at any time by the mutual consent of the parties.

12.0 TERMINATION

12.1 This Agreement may be terminated by either party on thirty-six months' written notice.

13.0 DESIGNATED OFFICIALS

13.1 For the purposes of correspondence under this Agreement, the Foundation designates as its representative:

Norman Riddell
Executive Director and Chief Executive Officer
8th Floor
1000 Sherbrooke St. West
Montreal, Quebec
H3A 3G4

And the Province of Alberta designates as its representative

Steve MacDonald
Executive Director
Program and Regional Services
8th Floor
Commerce Place
10155-102 Street
Edmonton, Alberta
T5J 4L5

This agreement has been signed on behalf of the Province of Alberta by the Minister of Advanced Education and Career Development this 4th day of May, 1999.

Witness

Minister of Advanced Education
and Career Development

This agreement has been signed on behalf of the Canada Millennium Scholarship Foundation this 4th day of May, 1999

Witness

Norman Riddell
Executive Director and Chief Executive officer

APPENDIX 2

FOUNDATION AGREEMENT WITH THE PROVINCE OF QUEBEC

(The french version prevails in case of discrepancy with the english version)

Administrative Agreement Canada Millennium Scholarship Foundation
Ministère de l'Éducation du Québec

RECITALS

Whereas an agreement in the form of an exchange of letters has been entered into by the Minister responsible for Human Resources Development for the Government of Canada, on one hand, and the Minister of Education and the Minister delegate for Canadian Intergovernmental Affairs for the Government of Quebec, on the other hand;

Whereas it is necessary to enter into an administrative agreement between the Canada Millennium Scholarship Foundation, created by the Federal Act, and the *Ministère de l'Éducation du Québec*;

Whereas the Government of Canada wishes to celebrate the millennium by making a contribution to knowledge through the Millennium Scholarship Awards and that, to this end, it has created the Canada Millennium Scholarship Foundation;

Whereas the Government of Quebec, in the exercise of its authority in educational matters, offers scholarships to over 60,000 students and devotes nearly $240 million per year to their education, pursuant to the *Act Respecting Financial Assistance for Education Expenses* (R.S.Q. chapter A-13.3) and its by-laws;

Whereas the Government of Quebec has established criteria for granting scholarships and systems necessary for receiving applications from students, analyzing their needs and distributing financial assistance;

Therefore, the Parties hereby agree as follows:

1.0 PURPOSE OF THE AGREEMENT

The purpose of this Agreement is to establish the mutual undertakings of the *Ministère de l'Éducation* and the Canada Millennium Scholarship Foundation with respect to granting Millennium Scholarship Awards to Quebec students.

2.0 DEFINITIONS

"year" means a calendar year.
"Federal Act" means the *Budget Implementation Act, 1998* (SC, 1998, c. 21).
"Quebec Act" means the *Act Respecting Financial Assistance for Education Expenses* (R.S.Q., chapter A-13.3).
"General Awards" means scholarships awarded pursuant to Section 27.1 of the Federal Act.
"Exceptional Merit Awards" means scholarships awarded pursuant to Section 27.1 of the Federal Act.

3.0 ELIGIBILITY CRITERIA

3.1 Eligibility for the Millennium Scholarship applies to all Canadian citizens or permanent residents, as defined in the *Immigration Act*, who are enrolled in a full-time course of studies at an eligible institution with the goal of obtaining an undergraduate university or college degree, diploma or certificate, who are in need of financial assistance and who demonstrate their merit.

3.2 The criteria for granting Millennium Scholarship Awards within Québec are those defined by the Québec Act, taking into account the following rules:

3.2.1 Need shall be established pursuant to the Québec Act. In granting awards, preference shall be given to students in the greatest need.

3.2.2 An eligible post-secondary course of studies is a program recognized as such by the Québec Minister of Education or the province where the program is offered, insofar as it is not a limited-enrolment program or the equivalent of a program that is not recognized in Québec.

3.2.3 A designated institution is a postsecondary teaching establishment located in Canada that awards degrees, diplomas or certificates, and that offers programs of study as defined in Section 3.2.2.

3.2.4 A full-time student is a student enrolled on a full-time basis, as defined in the Québec Act.

3.2.5 A Millennium Scholarship Award cannot be issued for an amount less than $2,000.00. Each Award is granted for a maximum period of 12 months.

3.2.6 The maximum number of months of study for which a full-time student may receive a Millennium Scholarship is 32 months. Months of study do not need to be consecutive.

3.2.7 A student may receive a maximum of $15,000.00 from the Millennium Scholarship.

3.2.8 For students studying at the college level, only those enrolled in at least their third eligible semester with respect to the loans and bursaries program, as stipulated in the Québec Act, may receive a General Award.

4.0 SELECTION OF RECIPIENTS

4.1 Québec will receive financial assistance applications from students, assess their level of need and the amount of the scholarship in compliance with the Québec Act and determine which applicants are eligible for a Millennium Scholarship Award.

4.2 Québec undertakes to ensure that no person shall be disqualified from being considered for a Millennium Scholarship Award because he or she chooses to study at an eligible institution outside of Québec.

4.3 Subject to compliance with the *Act Respecting Access to Documents Held by Public Bodies and the Protection of Personal Information* (R.S.Q., chapter A-2.1), on the 15th day of October of every year, Québec shall provide the Foundation, for the purpose of the application of the Federal Act, with the following information for students who are considered eligible for a Millennium Scholarship Award:

(i) Name
(ii) Address
(iii) Social insurance number
(iv) Educational institution attended
(v) Level of assessed need
(vi) Amount of award
(vii) Year of allocation and number of full-time semesters requiring assistance
(viii) Field of study

5.0 EXCEPTIONAL MERIT SCHOLARSHIP

5.1 The Foundation has determined that there shall be three classes of Exceptional Merit Awards: local awards, provincial/territorial awards and national awards.

5.2 The Parties agree that an amount equivalent to 50% of the Foundation's annual allocation for local and provincial/territorial Exceptional Merit Awards, as defined in Section 5.1, shall be granted and managed pursuant to the criteria defined within this Agreement for General Awards, and that the other 50% of this same allocation shall be managed by the Foundation in accordance with its own criteria. Moreover, the Foundation's national Exceptional Merit Awards shall be managed, in Quebec, by the Foundation in accordance with its criteria.

6.0 DISTRIBUTION OF SCHOLARSHIPS

6.1 On the 15th of January of every year, the Foundation shall pay to the *Fonds consolidé du Québec*, in trust for the recipients selected by Québec, an amount expressed as a percentage of its annual allocation for the Millennium Scholarship General Awards and an amount expressed as a percentage of its annual allocation for Exceptional Merit Awards at the local or provincial/territorial level, equal to Québec's share of the population of Canada, as represented by the most recently available census data.

6.2 The Foundation shall inform Québec of the value of these amounts on a rolling three-year basis.

6.3 Québec shall issue and distribute all cheques to Millennium Scholarship Award recipients.

6.4 Québec shall ensure, in compliance with the Québec Act, that students are enrolled in their post-secondary institution for the current year of study.

6.5 Québec shall, when granting scholarships, inform students that the funding for their Millennium Scholarship Award is provided by funds set aside by the Canadian government to mark the millennium. Accordingly, when the Millennium Scholarship cheques are issued, Québec shall integrate the Foundation's bilingual logo on these cheques. The cheque and cheque stub shall be in English for those who have indicated that English is their preferred language of correspondence on their application for financial assistance.

7.0 ADMINISTRATION FEES

The Foundation undertakes to remit to Quebec $445,000.00 a year for administrative costs incurred under the Agreement and a one-time payment of $120,000.00 for the cost of adapting its information systems.

8.0 DATA EXCHANGE AND VERIFICATION

8.1 Subject to compliance with laws relating to the protection and disclosure of information, the Foundation and Québec undertake to exchange the information needed by each party in order to implement this Agreement.

8.2 The Foundation agrees that all personal information it receives from Québec under the terms of this Agreement shall be used solely for the purposes of determining eligibility for the Foundation's Millennium Scholarship Awards, granting scholarships and conducting studies for the purposes of program evaluation and improvement.

9.0 CONFIDENTIALITY AND SECURITY

9.1 The Parties undertake to maintain, respect and protect the confidentiality of the personal information received during the course of the application of the Federal Act and not to release it to any person unless such release is authorized by law or with the consent of the student. The Parties shall ensure that, in the handling and use of information exchanged, their officers, employees, agents and contractors comply with the terms and conditions of this Agreement and with the *Act Respecting Access to Documents Held by Public Bodies and the Protection of Personal Information*.

9.2 The Parties agree to take all necessary steps to ensure the privacy of the personal information regarding students to be transmitted under the terms of this Agreement, notably by ensuring that this information is not used for purposes other than those outlined in this Agreement and that only authorized individuals have access to this information.

10.0 AUDIT

As of March 1 of ever year, Québec shall provide, in a mutually acceptable format, an audited annual statement of eligible expenses incurred under this Agreement for the previous year. This statement of expenses shall be certified by the *Bureau du Vérificateur général du Québec*.

11.0 EQUALITY OF TREATMENT

During the term of this Agreement, if a province or territory other than Québec negotiates an agreement for the administration of the General and Exceptional Merit Awards of the Foundation and that agreement is more favourable to the province or territory than this Agreement, the Foundation agrees, upon the request of Québec, to amend this Agreement in order to afford similar treatment to Québec.

12.0 PERIOD OF AGREEMENT

The provisions of this Agreement shall be effective from the day of signing until January First, 2010.

13.0 AMENDMENT

This Agreement may be amended at any time by the mutual consent of the Parties.

14.0 TERMINATION

This Agreement may be terminated by either party on a thirty-six (36) months' written notice.

15.0 DESIGNATED OFFICIALS

For the purposes of correspondence under this Agreement, the Ministère de l'Éducation du Québec designates as its representative:

> Pierre-Paul Allaire
> Director of Financial Assistance for Education Expenses
> Ministère de l'Éducation du Québec
> Édifice Marie-Guyart
> 1035, rue De La Chevrottière, 19e étage
> Québec (Québec) G1R 5A5

And the Foundation designates as its representative:

This Agreement has been signed:

By the Ministère de l'Éducation du Québec,

Pierre-Paul Allaire	28 octobre 1999 Date

By the Canada Millennium Scholarship Foundation,

	21 décembre 1999 Date

APPENDIX 3

Provincial Letters on Reinvestment of Savings

BRITISH COLUMBIA

"I am writing to confirm that my government will reinvest any savings accruing to the Province, as a result of the introduction of the Canada Millennium Scholarship (CMS) General Awards, in the British Columbia Student Financial Assistance Program. The $36.7 million provided by the CMS Foundation will be combined with $55.9 million from the existing British Columbia students for the first four years of post-secondary study."

"Any remaining savings from the introduction of the CMS General Awards will be used to make further improvements to British Columbia's Student Financial Assistance Program. Details will be announced in due course."

ALBERTA

"… provincial funds displaced by the Canadian Millennium Scholarships will be reinvested in programs that benefit students. This includes, but is not limited to, programs of direct and indirect benefit to students such as increasing the maximum assistance available to high need students, increased loan limits to accommodate the rising cost of education and assistance for learners to access technology."

SASKATCHEWAN

"As we discussed, Saskatchewan has three areas where we will be re-investing the funds as follows:

:: Portability of provincial student assistance. We have estimated this cost at approximately $2M;
:: Debt relief. We have estimated this cost at between $2.5M to $3M; and
:: Redirection of funds within the post-secondary sector."

MANITOBA

"I am pleased to inform you that the Province of Manitoba has agreed to re-invest the displaced costs in the Manitoba Student Financial Assistance Program."

ONTARIO

"I am pleased to inform you that Ontario intends to re-invest savings for the benefit of postsecondary students."

QUÉBEC

"Le quelque 70 millions de dollars qui seront économisés annuellement par le gouvernement du Québec au programme de prets et bourses seront réinvestis selon les priorités convenues avec les federations étudiantes et les représentants des établissements d'enseignemon supérieur. Je voue confirme que ce réinvestissement aura nécessairement un efft significatif sur le niveau d'endettement moyen des étudiantes et des étudiantes québécois profitant du programme de préts et bourses, niveau d'endettement, faut-il le rappoler, qui est parmi le plus bas au Canada."

NOVA SCOTIA

"It is understood the Foundation wishes to be assured that provincial funding presently allocated to Student Assistance will not be reduced as a result of the Foundation's Awards Program."

NEWFOUNDLAND AND LABRADOR

"In keeping with the spirit of the social union accord signed earlier this year, I am pleased to inform you that the Province of Newfoundland and Labrador has agreed to re-invest any savings incurred, as a result of the Millennium Scholarship Program, in the Newfoundland Student Assistance Program."

NEW BRUNSWICK

"I am pleased to provide this letter as a confirmation of our commitment to reinvest any student financial assistance funds displaced by the Millennium Scholarships into initiatives which will benefit New Brunswick post-secondary students."

PRINCE EDWARD ISLAND

"In keeping with the spirit of the social union accord signed earlier this year, I am pleased to inform you that the Province of Prince Edward Island has agreed to re-invest these savings for the benefit of students in post secondary studies."

APPENDIX 4

Foundation-Nova Scotia Dispute Concerning Displacement and Reinvestment

Until recently, the Foundation had identified Nova Scotia as the only laggard province on the reinvestment file, and the Foundation chastened Nova Scotia publicly. Indeed, officials in Nova Scotia believed, and may still believe, that the province was being humiliated by the Foundation. These officials also believed that the Foundation had taken to mobilizing students in Nova Scotia. A Nova Scotia student leader confirmed this view stating "The Foundation appears to want student leaders in Nova Scotia to pressure the provincial government to put displaced funds into PSE, reinforced this belief. The Foundation isn't prepared to take action itself. I don't think this is appropriate and [I] find it very frustrating."

While some progress has apparently been made in closing the gap between the Foundation and the Nova Scotia authorities as this report was being finalized in early May 2003, it is still pertinent to comment on this dispute because it was ongoing during almost all of the period we reviewed. And it seems that there is still some considerable tension between the Foundation and the province.

During much of this period, Nova Scotia claimed to have fulfilled the obligations it made to the Foundation. Nova Scotia's Deputy Minister of Education stated his province's commitment on reinvestment in a letter to the Foundation:

> "It is understood the Foundation wishes to be assured that provincial funding presently allocated to Student Assistance will not be reduced as a result of the Foundation's Awards Program. I wish to confirm that for the 1998-99 fiscal year, the Legislature of Nova Scotia approved a budget allocation of $13,896,000 for all aspects of the Student Loan Operation. You will appreciate that the budget allocation for fiscal 1999-2000 has yet to be submitted for approval by the House Assembly. However, I can restate the Department's intention to allocate no less an amount in future years. I believe this is the confirmation the Foundation requires."

The letter was stamped October 12, 1999, and apparently received October 18, 1999, more than three months after the initial agreement with Nova Scotia was signed. Officials in Nova Scotia claim that the Foundation did not respond to this letter. They thus concluded that the Foundation was satisfied with Nova Scotia's commitment.

Nova Scotia claims that it has fulfilled the commitment it made to the Foundation on the question of reinvestment. In other words, Nova Scotia maintains that at least $13.9 million has been spent on the student loan program every year that the Millennium Scholarship has been in operation. The Foundation argues:

> "The figure of $13.896M, however, falls considerably short of *actual* spending on student assistance for any recent fiscal year and thus does not constitute a formal re-investment commitment in any real sense. Actual expenditures were $24M in fiscal 98-99 and $30M in fiscal 99-00 (the year in which the "promise" was made) and $24M in 2000-01. The $6 million drop in expenditure is believed to be largely the effect of the bursaries program on the province's remission program. In the province's 2000 budget, the Government of Nova Scotia eliminated its existing loan forgiveness program, effective in the fall of 2000. As a result, Millennium Scholarship Bursaries will not [sic] longer displace as large a sum of money as it did when the remission program was in place. For that reason total displacement and re-investment is expected to fall in future years. Nova Scotia has not informed the Foundation of any plan for re-investing either the $4.8 million in estimated savings for the 99-00 cohort ($3.5 million of which actually occurred in the 00-01 fiscal), or for the $1.0 million in savings for future cohorts."[30]

The Foundation's figures for Nova Scotia may be accurate, but they also demonstrate that Nova Scotia has fulfilled its "commitment" as described in its letter to the Foundation. The other provinces evidently re-deployed their resources for the benefit of students, while Nova Scotia apparently utilized the Millennium Scholarships to reduce program spending.

APPENDIX 5
Measuring Debt Levels

To understand the focus on debt reduction in the creation of the CMSF, it helps to recognize that the CMSF was introduced at a time of mounting public concern regarding student debt levels. Indeed, it is perhaps not an exaggeration to say that student debt had perhaps become the principal “access” issue of the day. Simply put, when one heard discussions of access, they often turned immediately to student borrowing levels. Discussing student debt levels in the context of access is not an unreasonable thing to do. There is no doubt that governments must pay attention to student borrowing levels when considering access. The question then becomes, how much debt is too much? When does debt *deter* access?

An obvious first step in addressing these questions is to determine current borrowing levels. Unfortunately, the measurement of student debt has been a difficult exercise, principally due to the paucity of appropriate data. To measure student debt levels in any meaningful way, one needs borrowing information for a sufficiently large, representative sample of current and former post-secondary students and data on successive cohorts of such students. Furthermore, to assess the effective burden of student debt loads, information on individuals’ employment status and earnings levels is required so that debt levels can be placed in this context. Any further information regarding repayment rates, defaults, students’ subjective evaluations of their debt burdens and so on, would help round out the picture.

Unfortunately, no such data exist in Canada. The principal reason for this is that although governments have always been responsible for determining which individuals qualify for student loans, until the 2001 move to direct lending, student loans been issued by private financial institutions. These institutions have, in turn, been under no obligation to report the amount of actual borrowing, to link borrowing to students’ characteristics, or to otherwise gather or provide the data required to measure and analyze debt levels or the burden of borrowing. In addition, federal and provincial loans are issued separately, thus complicating the data requirements further.

Probably the best source for measuring borrowing levels and their levels has been Statistics Canada’s National Graduates Surveys, which comprise a series of large samples of post-secondary graduates containing information gathered two and five years following graduation. These databases include the level of accumulated borrowing from federal and provincial student loan programs at graduation, the amount still owed two years following graduation, and respondents’ assessments of the “difficulty” that loan repayment has caused. All this information can be linked to detailed information on students’ backgrounds, educational experiences, and post-graduation labour market outcomes.

The results of recent investigations (Finnie, 2001a; 2001b; 2002) may be summarized as follows: student borrowing in Canada rose through the 1980s and 1990s, but even at the end of this period only one-quarter to one-half of all graduates finished their studies holding student loans and the average borrowing levels of those with loans was in the $9,500 to $14,000 range in constant 1997 dollars, depending on gender and the level of education. The percentage of graduates reporting “difficulties” has also risen, but remains relatively low, on the order of 14 to 26 percent among all borrowers, and just 3 to 12 percent among all graduates, including non-borrowers.

More recent data would probably show higher borrowing levels. Focusing on bachelor’s graduates, various estimates (Finnie, 2001b; Canadian Millennium Scholarship Foundation, 2002) suggest that, when the CMSF came into being, probably just under one-half of all graduates were completing their studies holding student loans, and average borrowing levels were around $18,500 for those borrowers.

Note, however, that these estimates are for bachelor’s graduates and do not include the much lower borrowing levels of college graduates or the many students who do not graduate. On the other hand, it does not include the possibly higher borrowing of graduate students. The average cumulative debt among *all* borrowers is likely to be lower than $18,500.

The introduction of the CMSF was, however, framed in a context where average borrowing levels were asserted to be substantially higher than these estimates indicate – around $25,000 (with little attention give to the fact one-half of all students were graduating with no loans at all). This estimate of $25,000 was produced by the federal Human Resources Development department but was subsequently acknowledged to be inaccurate and was withdrawn.

APPENDIX 6

Can Incremental Student Aid Affect Access at All?

As discussed above, one of the central goals of the CMSF is to improve the access of young Canadians to post-secondary education. Scholarships to post-secondary students are the primary mechanism through which the CMSF hopes to achieve this goal. CMSF scholarships generally replace student loans that otherwise would have existed and do not increase the amount of funds immediately available to students. We argued in the text that increasing the funds immediately available to potential students would be more effective in increasing access that is debt reduction.

It is worth noting that there is a plausible argument – documented by extensive econometric analysis – that incremental student aid *in any form* is unlikely to increase access to any great degree. Most plans to increase student aid assume that potential students are prevented from going to school by “credit constraints” – or what we have called the “financing constraint” – some combination of a lack of money or a fear of borrowing. However, an emerging body of literature, albeit using US data, argues that, at least as things stand now, the post-secondary access problem arises at a much earlier point in students’ lives, when low parental income inhibits children’s cognitive development. By the time potential students are old enough to apply for university, their problem is a lack of school readiness, not a lack of financial resources. Proponents of this argument believe that, while *existing* student aid schemes are necessary and important, *improvements* to the system, such as – in the Canadian context – the CMSF scholarship program, will have little effect on enrolment rates. For example, in summarizing their paper supporting this position, Carneiro and Heckman (2002, p.707) write that "the evidence assembled here suggests that the first order explanation for gaps in enrolment in college by family income is long run family factors that are crystallized in ability. Short run income constraints play a role, albeit a quantitatively minor one." Other authors, however, argue that credit constraints remain an important factor preventing low-income students from enrolling in post-secondary programs.

The starting point for both sides of this argument is the observation that post-secondary enrolment rates vary substantially by family income (observed at the time that children are graduating from high school). The question is whether the *cause* of these differences is short-run credit constraints that can be overcome by student financial aid programs or long-run factors that have led low-income students to be less prepared for further academic endeavours.

The crux of the argument can be seen in the finding in Carneiro and Heckman (and others) that, once student ability (as measured by test scores) and family background are controlled for, family income is not a determinant of post-secondary attendance. Kane (2001), however, contradicts those findings by showing that there are differences in post-secondary enrollment rates across family income quartiles, even when test scores, high school grades and parental education are held constant.

That said, Kane (2001) is hesitant to ascribe these differences to students’ inability to pay for schooling, and summarizes the debate over the importance of credit constraints in impeding post-secondary enrolment as follows:

In summary, even though there are a number of pieces of evidence that would be consistent with borrowing constraints, it is difficult to find a definitive test of the existence of borrowing constraints in the literature. In each case, there are alternative explanations for the same facts, which would not require borrowing constraints to be part of the story.

For the purposes of evaluating the CMSF scholarship program, we note that even those who believe that credit constraints are not the “first order” cause of differences in enrolment rates by family income accept that there is *some* role for incremental student aid in helping *some* potential students.

APPENDIX 7

Summary Assessment of Other Commitments

REQUIREMENT	REFERENCE	FOUNDATION ACTION
To invest its funds and reinvest any income from those funds in accordance with the investment policies, standards and procedures established by the Board	Section 23(1)	This is being met as evidenced by an examination of audit committee and board minutes and of Bimcor reports.
To limit its scholarships to persons who are Canadian citizens of landed immigrants	Section 27(1)(a)	All Foundation agreements with provinces and territories have a clause aimed at this result. Provincial and territorial audits did not address this explicitly.
To limit its scholarships to persons who are enrolled at an eligible institution as a full time or part time student	Section 27(1)(b)	All Foundation agreements with provinces and territories have a clause aimed at this result. Provincial and territorial audits address this explicitly and indicate that procedures are in place to meet requirement.
To limit its scholarships to persons who are pursuing undergraduate studies	Section 27(1)(c)	All Foundation agreements with provinces and territories have clause aimed at this result. Provincial and territorial audits address this explicitly and indicate that procedures are in place to meet requirement.
To enter into agreements with provincial ministers respecting the provision to the Foundation of names of residents of the provinces who are determined to be qualified to receive a scholarship from the Foundation and any supporting information that the Foundation considers appropriate	Section 29(2)	Signed agreements with 13 provinces/territories whereby they provide a list of students who qualify under the terms of section 27(1d) as described elsewhere, showing each student's assessed need based on provincial criteria (which are essentially standardized across Canada). There is no other “supporting information” sought or received.
To grant scholarships for periods of not more than twelve months	Section 30(1)	This is accomplished through a procedure whereby recipients of its awards can re-apply for three successive periods of eight months each, thus ensuring that twelve month limit is respected.
To limit the total number of months of study in of study in respect of which scholarships may be granted to person who is engaged in full-time studies to 32 months	Section 30(2)	This is accomplished. Provincial audit reports indicate that there are mechanisms in place to ensure that the 32 month limit is not exceeded.
To limit the total amount any person may receive as scholarships to $15,000 or such amount as the Board may consider necessary to maintain the value of that total amount	Section 31	The Foundation adjusted the total amount any person may receive as scholarships from $15,000 to $19,200 in order to maintain the tuition purchasing power of the Foundation’s awards.

REQUIREMENT	REFERENCE	FOUNDATION ACTION
To publish a notice of the adjusted maximum amount in a manner that the Board considers appropriate	Section 31(3)	Foundation published notice of the adjusted maximum on its web-site and in pamphlets describing its programs.
To take into account the higher costs incurred by persons attending eligible institutions outside the person's ordinary province of residence or outside Canada while enrolled at an eligible institution	Section 32	This is not explicitly provided for in Foundation agreements with provinces and territories. However, needs assessment should, in principle, reflect higher costs that are sometimes associated with studying outside of province. Whether needs assessment does in fact do so we were unable to verify.
To maintain the books of account and other records of the Foundation in such a way that they show that the assets of the Foundation are properly protected and controlled and that its business and affairs are carried on in such a way they will show the description and book value of every investment of the Foundation and the names of the persons who have received or are about to receive scholarships and the amount of the scholarships	Section 35(2)	This requirement is satisfied. Lists of all financial instruments and of individuals who received awards are maintained.
To prepare an annual report within six months of the end of each fiscal year in both official languages To have its annual report approved by the Board and the Members of the Foundation	Section 36 Section 38(1)	This has been accomplished and is reflected in the published annual reports in both official languages, approved by the board of directors and the Members in a timely fashion.
To cause a review and report to be made of its activities and organisation within one year after its fourth anniversary	Section 37	This is being accomplished through this report.
To publicise its annual report and provide copies of the same to federal and provincial ministers	Section 38(2)	This has been accomplished by letters of transmission to statutory and non-statutory recipients. Annual reports are also available on the web-site.
To convene a meeting of the members, open to the public, at a city in Canada to consider the Foundation's annual report and other matters relating to the Foundation's activities	Section 39(1)	This has been achieved. This is evidenced from minutes of such meetings and by advertisements in newspapers.

REQUIREMENT	REFERENCE	FOUNDATION ACTION
To give notice of its annual meeting at least thirty days in advance	Section 39(2)	This was not satisfied in one year when only 29 days notice was given (for October 28, 1999 meeting). This requirement was satisfied in other years.
Members to appoint an auditor for the Foundation for each fiscal year at first meeting of fiscal year	Section 40(1)	This appointment of Ernst and Young to prepare the audited statement for 1998 was not made by the Members. Subsequent appointments were made according to the statutory requirement.
To convene a meeting of the members to consider the auditor's report	Section 41(2)	This has been confirmed by consulting minutes of meetings of Members.
To appoint an audit committee, consisting of not fewer than three directors and fix the duties and functions of that committee	Section 41(2)	The committee was created by the board of directors on February 16, 1999. The mandate of the committee was well defined. From May 5, 1999 to September 2, 1999, there were only two members on this committee.
To cause internal audits to be conducted to ensure compliance by the officers and employees of the Foundation with the management and information systems and controls established by the Board	Section 42(2)	This is evidenced by the internal audit plan and reports.

POST-SCRIPTS

When a draft of the above report was provided to the Foundation late in 2002, senior officials asked the evaluation team if we would provide additional analysis and advice, separate from our main report, on possible ways that the Foundation might improve performance in two areas, while working within the framework of the existing legislation. Both issues were ones on which we had expressed some concern in the draft report- a concern that is still found in our final report above. One request related to possible ways of improving the broad accountability of the Foundation given the provisions of the law about governance. The second request related to ways of improving access, again working within the existing statutory mandate. This post-script is our response to that request.

POST-SCRIPT 1

Advice to the Canada Millennium Scholarship Foundation on Governance

Julia Eastman and David Cameron

BACKGROUND

In the section of the Evaluation Team's report pertaining to governance and administration, we expressed concern about one aspect of the Foundation's governance: the capacity of the Members to hold the Foundation accountable. We indicated that we regard this as a structural problem (i.e. one rooted in the structure created by the Foundation's legislation, Part 1 of *The Budget Implementation Act*, *1998)*, not one attributable to failings on the part of individual Members.

Accountability is an important issue in the context of the Foundation, because its structure was intended to enable it to be more innovative than would normally be possible under government rules and regulations. The Evaluation Team's findings suggest that the Foundation has succeeded in meeting this expectation; it achieved an impressive pace of programme development and implementation in the years under review (1998-2002). It is precisely in such circumstances – in which an organization's activities are evolving rapidly – that effective oversight is crucial.

We were subsequently asked for suggestions about how the Foundation might improve this aspect of its governance. Insofar as the root of the accountability problem lies in the Foundation's legislation, no solution is possible within that legislation. Some improvement may, however, be achieved.

In pages that follow, we briefly describe the Foundation's governance structure, explain what led us to conclude that there is an accountability problem, and provide suggestions for the consideration of those who govern and lead the Foundation as to how the problem might be alleviated.

THE GOVERNANCE OF THE FOUNDATION

The Budget Implementation Act, 1998, Part 1, establishes the Foundation as a not-for-profit corporation, independent of the Government of Canada. Whereas Ministers are accountable to Parliament for the performance of government organizations, including “arm’s length” agencies, boards, and commissions (Aucoin, 2003), the Canada Millennium Scholarship Foundation is accountable to its Members – 15 individuals drawn from across Canada, who serve in a personal capacity and play a role described as being akin to that of shareholders. Six of the Members are appointed by the Governor in Council, nine elected by the Members themselves. The Members’ duties include appointing nine of the Foundation’s fifteen Directors (the others being appointed by the Governor in Council), appointing the auditor, receiving the auditor’s report, and approving the Foundation’s annual report.

THE NATURE OF THE PROBLEM

Accountability has been defined as “refer[ing] to the mechanisms for demonstrating how authority and delegated authority have been exercised, and for calling to account those to whom authority has been delegated” (U.K. Higher Education Funding Council, 1999). The Evaluation Team did not identify any deficiencies in the manner in which the Foundation has reported how it has used the authority and resources entrusted to it. Indeed, the Foundation appears to have gone beyond the simple provision of information to efforts to stimulate public interest and participation in its activities. The problem lies rather in the extent to which the Foundation is called to account for its activities.

As noted above, the Foundation is accountable, not to Parliament, but to its Members. Interviews with all the Members, with eight of the Directors, and with the senior officials of the Foundation led us to conclude that the effectiveness of the Members, as a body, in holding the Foundation to account has declined over time. When the Foundation was first established, the Members were very active in appointing the initial Board. Since then, they have naturally met less often. In 1999, the only Members’ meeting (other than the annual public meeting required by legislation) took place by teleconference. Since then (again, apart from the annual public meetings), one meeting has taken place by teleconference and the rest of the Members’ business has been conducted by fax.

The majority of Directors and officers interviewed expressed the view that the Members no longer fulfill the role of holding the Board and the Foundation accountable for the achievement of the latter’s mission. Indeed, the dominant view amongst Directors is that the Members now play little, if any, role. There is a perception that some Members no longer have time for the Foundation.

Most Members would dispute that assessment. They deem the Members to be effective in holding the Foundation accountable, even though they rarely meet. In this view, the Members keep a watching brief of the Foundation and would galvanize into action should its Board or management stray from its mission. A minority of Members are less sanguine. The latter express the view *either* that it is not necessary for the Members to hold the Foundation accountable *or* that the Members’ role includes oversight but they are not capable of fulfilling it. They describe what the Members now do as strictly *pro forma*.

In addition to criticism of the Members’ effectiveness as a body, we heard confusion on the parts of both some Members and some Directors about the role Members are intended to play, relative to Directors – an issue to be revisited below.

The expressed concerns about the Members' effectiveness, the difficulty in getting the Members to meet, even by telephone, and the confusion about roles are all symptoms of a more fundamental problem: the assumption underlying the legislation that Members can serve as proxy shareholders of the Foundation on behalf of Canadians is flawed. The analogy between Members and shareholders breaks down on many levels. Rather than having a financial stake in the Foundation's performance, which is the definition of a shareholder (one who holds shares in the corporation), Members – who are unpaid volunteers – appear to be motivated chiefly by concern for students and potential students. Most fundamentally, it is not the Members who provided the resources the Foundation works with and who deserve to know that the Foundation uses them in accordance with their intent. Given that Members do not have an active role in the affairs of the Foundation (other than appointment of Directors and Members), do not own shares, and do not have a personal stake in its performance, they naturally tend not to devote enough time and attention to it to hold it accountable. Even were the Members unaccountably and altruistically to devote untold hours to the Foundation, that would not solve the problem: activism on the part of Members might well lead to questioning of their legitimacy.

Insofar as these governance problems are rooted in the legislation, they cannot be corrected within the legislation. Nevertheless, some amelioration is conceivable.

SUGGESTIONS FOR AMELIORATION

Before turning to what the Foundation could do, allow us to suggest what it should not do. Suggestions have been made from time to time by Members, Directors and others, including in interviews with us, that Members should be more "involved" – i.e., that they should play a role more akin to that of Directors. That Members should serve on Board committees and that they should serve as ambassadors for the Foundation's programmes were amongst the specific suggestions we received. We sympathize with the frustrations of Members who seek a more active role for themselves and their colleagues. However, for the Foundation's governance structure, flawed as it is, to continue to function, it is vital that the distinctions between the roles of Members, Directors and staff be maintained. If Members become party to the Foundation's decisions and actions, their capacity to hold it accountable will evaporate entirely.

Improving the Members' effectiveness

> That noted, herewith a few modest suggestions for improving the effectiveness with which the Members as a body function.

Given that there is still some confusion about the role of Members, we suggest consideration be given to the preparation of a brief description of that role, building on the contents of the Foundation's legislation and by-laws. We also suggest that the Members articulate in a brief statement *how* they will discharge the role. Even if what they do does not change (i.e. continues to consist principally of individual review of documents and other materials, followed by approval by teleconference or fax), the document should help dispel misplaced expectations.

An obvious use for the statement of the Members' role and responsibilities would be in the orientation of new Members. (It appears that more recently appointed Members, perhaps lacking the benefit of the early group meetings and collective learning, tend to be more doubtful about the Members' role and the effectiveness with which it is discharged than those appointed at the outset). The statement could also be used to improve understanding amongst Directors, staff members and others of the role and responsibilities of the Members. It is not healthy – or fair to Members – if lack of active collective involvement on their part is interpreted as lack of effectiveness or lack of commitment.

As noted above, because Members are busy people without shares in the Foundation or an active role (other than making appointments) in its operations, it is unlikely that they will be well enough informed to hold it accountable. Keeping abreast is particularly difficult for Members who are not part of the university or college sectors and therefore do not pick up pertinent information in the course of their other work. There is no simple answer to this problem. A few Members indicated, however, that the type of information they now receive from the Foundation is not what they really need. Though some appreciate being sent copies of publications, reports and other documents (and some do not), it was suggested that what would be most useful would be very short, periodic (e.g. 3 times per year) written briefings from the Executive Director. Given the Members' responsibility for ensuring that the Foundation is true to its mission and mandate, such briefings would presumably encompass related issues, plans and activities.

Time spent in meetings is by no means necessarily correlated with effectiveness, but if a body does not meet in person or by telephone, it is very difficult for it to hold an organization accountable, even by means of a "watching brief". In order to improve participation in teleconferences and other meetings, it is suggested that consideration be given to scheduling them on an annual cycle, a year in advance. The nature of many of the Members' duties (e.g. appointment of auditor, receipt of annual report), lend themselves to such scheduling.

A number of people suggested to us the adoption of a rule that the appointment of a Member who has missed more than a specified number of successive meetings, for reasons other than illness or other unavoidable circumstances, automatically lapse. We suggest that an effort to schedule Members' meetings further in advance be made before the adoption of such a measure is contemplated.

VOLUNTARY PARLIAMENTARY ACCOUNTABILITY

In a draft document on corporate governance in the public sector, the Public Sector Committee of the International Federation of Accountants described accountability as:

> the obligation to answer for a responsibility that has been conferred. It presumes the existence of at least two parties: one who allocates responsibility and one who accepts it with the undertaking to report upon the manner which it has been discharged. (2000, p. 10)

Who conferred the responsibilities the Canada Millennium Scholarship Foundation now discharges? Parliament did, in passing Bill C-36 in 1998. It is thus to Parliament that the Foundation should be accountable, notwithstanding its legal independence.

An alternative approach to improving the Foundation's accountability – or one which could supplement attempts to improve the effectiveness of the Members by the means suggested above – involves recognizing this. Many Members and Directors implicitly do so. When asked to whom the Foundation is accountable, some said, "to Canadians". Giving practical effect to this sentiment means being accountable to Parliament.

As noted above, the Foundation's legislation places it beyond the authority of the Government and Parliament in most respects. That need not, in our view, preclude voluntary compliance by the Foundation with some of the essential elements of accountability to Parliament, as identified in recent reports of the Auditor General. For example, the Members could use their authority to appoint the Foundation's auditor to invite the Auditor General to audit the organization or to instruct an external auditor. (It is, of course, possible that the Auditor General would decline the invitation, if she or he believed such actions to be outside the Auditor General's legislative authority.). Similarly, although the Foundation is not required to undergo compliance audit, it could choose to do so. In addition to providing its annual report to the Ministers of Human Resources Development for tabling in Parliament, as is required by its legislation, the Foundation could report periodically on its activities to parliamentary committees.

As Aucoin (2003) has noted, the most important recent improvements in ministerial authority and responsibility for non-departmental organizations have been through (1) policy directives issued by government as binding on non-departmental organizations, and (2) required government approval of corporate plans and budgets. The Foundation's legislation allows the Governor in Council to make regulations respecting the maximum remuneration payable to the Directors. Otherwise it is not bound by government policy directives. It could nevertheless choose to comply with pertinent ones. Likewise, though it need not seek government approval for its plans and budgets, it could report its corporate plans (as it does its annual report and evaluation results), thus fulfilling another of the key elements of accountability identified by the Auditor General.

The Foundation's commitment to transparency might be demonstrated by means of voluntary compliance with the Access to Information Regime. Finally, the Foundation could promote the goal described by the Auditor General (2002) as "promoting public sector values and ethics" by complying voluntarily with federal policies on issues like privacy and conflict of interest.

We suggest that the Foundation consider such steps, not that it necessarily adopt them. After all, for the Foundation to operate as if it were under government rules and regulations would defeat part of the government's stated purpose in establishing it as an independent foundation. Only if the benefits of such measures in terms of accountability outweigh their costs in terms of money, efficiency and flexibility should they be adopted.

Furthermore, we suggest that this consideration should involve, primarily, the Members of the Foundation. After all, if the point of the exercise is to enhance the effectiveness of Members in holding the Foundation to account, action to achieve that end should surely involve the Members.

Voluntary adoption of each and every one of the suggested measures would not add up to real parliamentary accountability. As Aucoin has explained, for there to be true accountability, the superior authority must have the capacity to reward and sanction the body reporting to it. The Foundation's legislation makes it otherwise. The Foundation is formally independent of the Government and Parliament. It was endowed with public money and is therefore not subject to the annual parliamentary appropriations process. However, the Foundation's current mandate will expire by January 1, 2010. A further mandate would require parliamentary approval. In that sense, Parliament does have authority over its future and the measures suggested above would bolster real accountability, as well as public reporting.

POST-SCRIPT 2

How the CMSF Could Have a Greater Effect on Access

Ross Finnie

THE BROAD LINES OF AN ALTERNATIVE STRATEGY

In assessing the effect of the CMSF on increasing access to post-secondary education in Canada, the main report concluded that the effects could likely have been significantly greater. This is for three main reasons:

1. The "direct" effects of the spending have not likely been very great because CMSF scholarships have almost uniformly done nothing (we noted rare exceptions) in terms of delivering more money to those who need such funds to pay their tuition, other schooling costs, and living expenses while in school. Instead, they have gone towards reducing the amount of student borrowing in student aid packages of a given amount. That is, future debt obligations of those in the post-secondary system have been reduced, but those needing the money to attend school now have received no additional assistance.

2. A significant portion of the provincial savings that resulted from the reduced provincial spending on student grant, loan, and debt remission programs stemming from the CMSF scholarships did not go into student financial assistance programs or other areas likely to affect access.

3. The provincial re-investments that did go towards student financial assistance were in some cases similar in nature to the direct spending noted above, thus reducing debt loads but doing nothing for those needing help to pay their schooling-related expenses, and likely had similarly limited effects on access.

The remedy would correspond to these points:

1. Direct the CMSF scholarships, at least in the first instance, towards un-met need, thus opening up access to the post-secondary education system to those needing such assistance to meet their schooling related expenses.

2. Ensure that all provincial savings go into student financial aid.

3. Spend the re-invested on student aid where it will go farthest in opening up post-secondary opportunities for those who need it.

CMSF money could also go into earlier interventions, such as encouraging young people – especially those from groups where post-secondary rates tend to be low, including low income families, aboriginals, and others – to consider going on to post-secondary education from an early age and to prepare themselves for getting into the system and succeeding once they are there. This is especially appropriate in a context where socio-economic background appears to be an important determinant of who participates in post-secondary education, and tweaking the student financial system is not likely going to overcome the more systemic disadvantages that many young people face in this regard.

WHY MORE MONEY TOWARDS UN-MET NEED?

Why should more money go towards un-met need? In the absence of any solid empirical evidence regarding the relative efficacy on improving access of reducing debt loads versus increasing the amount of money going towards needy students (as discussed in the text), there are a number of reasons to indicate the latter would have the greater effect on access.

The first argument in favour of putting additional resources towards un-met need instead of debt reduction is the simple logical argument that those who lack the money to pay for their schooling costs face a clear barrier to pursuing their studies (i.e., a financial limitation) whereas those who possess the necessary funds but receive a portion of that money in the form of loans do not. The latter at least have the choice of participating; the former do not.

A second reason to favour increasing the money available to needy students over debt reduction is that – as mentioned in the text and discussed in detail in Appendix 5 – despite all the attention student debt loads have received, they do not appear to be excessive for most students, the majority of whom have seemed able to repay their loans without undue hardship. And for those who do need help with their debt loads, it is much more effective to direct assistance towards those individuals in their post-schooling years when the problems are actually faced, rather than reducing the debt loads of all borrowers as they go through their studies on a year-by-year basis (as the CMSF scholarships generally do), including those with small accumulated debt totals and those who go on to well-paying jobs. Most such individuals would be able to repay their loans with little problem.

Conversely, when we turn to un-met need, there is good reason to believe a significant number of students who lack the financial assistance they need, and that this might be limiting access to post-secondary education. First, in a careful study of the amounts of financial aid available to students in various situations, Hemingway [2003] has shown this to be the case. In some cases, the maximum amount of aid available to those who qualify seems insufficient. In other cases, eligibility criteria appear to preclude certain types of students from the grants or loans they need, including those who would like to move away from home to pursue their studies, those in middle class families not eligible for (full) financial aid packages because their parents' income is too high, those with brothers and sisters also at school and thus competing for the family's limited resources, and others. Indeed, even a casual inspection of student financial aid formulas points to potential shortfalls for at least some groups of students.

There is, furthermore, at least some empirical evidence to back up these conjectures that there is a significant amount of un-met need in the student financial aid system. The EKOS [2003] survey of students' incomes and expenses identifies certain types of individuals who appear to be cash-short and who could benefit from higher loan limits and expanded eligibility. Also, although the existing analytical literature (as discussed in Appendix 6 and summarized in the text) generally suggests that the number of students in the population at large that are currently credit constrained is likely to be fairly small, it also suggests that there are at least some individuals in this position. Various studies of the relationship between post-secondary participation and students' background characteristics (including family income) are consistent with this finding. Frenette [2002], for example, finds large differences in the rate of university attendance between rural and urban dwellers, but similar rates for college, with at least part of this difference likely being due to the increased costs associated with needing to go away to university – costs which might well not be met by existing financial aid packages.[31]

A third reason to believe there is a significant amount of un-met need is the existence of empirical evidence that students have historically chosen to borrow more when given the chance to do so, and that they have in fact needed the money they borrowed (as opposed to banking it as an easy investment as some might claim)[32]. Other more recent work based on Statistics Canada's PEPS Survey (2002) finds that some individuals who did not pursue post-secondary studies state that they would have done so had they received a loan or received a greater loan than one for which they qualified.[33]

Finally, discussions with student group representatives, those in the financial aid system tend, and even individual students (as unrepresentative as such an informal survey inherently is) point to the existence of a population of students that need more money to go to school or to otherwise widen their post-secondary options. Again, these seem to include individuals who want to go away to school, those from middle income parents who do not qualify for assistance or who qualify for only limited funding, and so on.

Thus, logical reasoning, an inspection of the existing institutions and rules, and the empirical evidence available appears to suggest that while the Canadian financial aid system generally works quite well in terms of opening up post-secondary schooling opportunities, gaps and shortfalls remain. And this especially when we consider choice of program and institution, being able to attend an out-of town institution, going full-time rather than part-time, not needing to work excessive hours at an outside job while in school, and so on.

Putting more money towards un-met need should, therefore, help open more post-secondary education opportunities for more individuals, whereas reducing student borrowing, especially for those who have already made it into the system – as CMSF bursaries have been used to date – will not do anything for those who remain outside the system or lack other opportunities because of a shortage of funds.

WHAT FORM OF AID?

What is the best way to deliver this aid in order to close the gap of un-met need? The main options would presumably be – in the absence of the legislative constraints faced by the CMSF which are discussed below – grants and loans.

Grants are the more powerful tool for increasing access, because they effectively reduce the price of schooling while also making it more affordable by providing students with the money they need to meet their schooling and related living costs. Or, in the terms used in the main report, they have an effect on both the rate of return limitation to post-secondary education, and the financing limitation. Loans, in contrast, can do the same job in terms of giving students the money they need to meet their schooling costs (i.e., thus addressing the financing limitation), but have only a secondary effect on the cost/rate-of-return limitation, since they have to be repaid (albeit not to their full real value due to the various subsidies inherent in all Canadian student loan programs).

But although grants are the more powerful tool, they are more costly to the government than loans, precisely because loans are paid back whereas grants are not. From another perspective, a loan program can deliver much more assistance per dollar of government spending than a grant program, which is a factor if funds available for student aid are limited.

The choice between grants and loans should presumably then turn on what is deemed the best way to spend any given amount of funds, recognizing that while grants have greater effect per dollar spent, a given amount of aid dollars will go much less far in terms of the number of students that can be helped.[34]

As noted in the main text, debt remission of the kind taken by the CMSF bursaries to date (even when called a “grant”) is as expensive as grants, but does nothing in terms of meeting un-met need – in some sense the worst of both worlds (i.e., both costly and probably limited in terms of their effects on access). Furthermore, delivering assistance to those experiencing difficulty in repayment is a much more efficient way of addressing the problem at which debt remission is targeted.

OTHER MEANS OF INCREASING ACCESS: EARLY INTERVENTIONS

Another means of improving access is to provide early interventions – help young people turn towards post-secondary education so that they will be prepared and make the right choices when the time comes to do so. This is especially appropriate in a context where socio-economic background appears to generally create powerful advantages for those from higher income families over those from more humble origins in these respects.

It is, in short, not foolish to think that a dollar of well-targeted spending on a group of disadvantaged 14-year-olds could have a greater effect on access than, for example, reducing debt loads of those already in the post-secondary system, as the current CMSF bursaries do. We need to learn more about the factors that affect individuals' decisions to attend post-secondary education and the preparation that can get them into the system and help them succeed once they get there so that we can best open up opportunities, especially for those from disadvantaged backgrounds. But a combination of intelligent interventions based on what we know now and a good research plan should result in individuals being helped as we learn more about the best way to do so. Here, the legislative constraints are probably particularly binding, but this broader perspective should not be lost, and ways of working within the set of given rules are suggested below.

HOW TO WORK WITHIN THE CONSTRAINTS OF THE CMSF LEGISLATION?

The CMSF is constrained by various legislative directives, including that the awards must be paid in the form of scholarships averaging $3,000 per year and have an element of merit – and therefore cannot come in some other form of aid, such as loans. How can a plan to direct more money towards un-met need and early interventions work within these constraints?

First, to the degree the spending went in the form of grants – or "scholarships" – directed towards un-met need, rather than debt reduction, this would be a positive step well within the existing rules. Indeed, this is precisely what has occurred to date for the Territories and half of the spending in Newfoundland, where the CMSF scholarships did in fact go towards un-met need. These examples show that this option is feasible within the guidelines set out in the relevant founding government documents (i.e., the relevant budget speech and the actual enabling legislation).

Second, if a province wanted to deliver additional assistance in the form of loans –perhaps including increased aid to ex-students experiencing excessive debt burdens in repayment – this spending could presumably be financed by the funds saved by the "direct" CMSF spending on bursaries. That is, for each provincial dollar freed up by CMSF spending (i.e., the provincial savings discussed in the report), a dollar could be re-invested in an expanded loans program. (The constraint that CMSF awards must be made in the form of scholarships does not apply to re-investments – as has clearly been shown.) As long as the savings resulting from the direct CMSF spending were sufficient to fund the desired expansion in loans, there should be no binding constraint. And the provinces could effectively arrange their CMSF funds to be spent in a manner which maximized those savings, up to 100 percent (as in Quebec in the current system). In this way, provinces should be able effectively use the CMSF funds in the manner they deem most effective for improving access to post-secondary education: more grants, more loans, more early interventions, or some combination of these.

THE BROADER CONTEXT

CMSF spending is just under $300 million per year. This is less than 10 percent of all federal and provincial direct spending on student financial aid (Finnie, Schwartz and Lascelles [2003]. Miracles should, therefore, not be expected in terms of the effects the CMSF scholarships could have on access to post-secondary, especially when access is determined by many factors besides student financial aid, including, importantly, socio-economic background, as well (on the supply side) the capacity of the system.[35]

Furthermore, the CMSF must work with the provinces, and is not in any position to impose its will on any given jurisdiction. In short, any province is likely in a position to get what it wants in terms of how CMSF bursaries are spent (within the broad legislative constraints), in terms of the savings it realizes as a result, and in terms of how those savings are re-invested (or not). In short, any decision regarding how the CMSF bursaries might be spent differently probably resides more with the provinces than the CMSF itself.

These represent powerful limits on what the CMSF might be able to achieve in terms of improving access to post-secondary education in Canada.

That said, the CMSF represents an important new insertion of funds into the Canadian student financial aid system, and could help define new directions for the entire package of spending in the years to come while providing a substantial amount of assistance in an effective manner to a sizeable number of young Canadians who aspire to higher education right now.

In this context, CMSF spending should be made to fit with the other elements of the Canadian student financial aid system, avoiding overlaps and gaps, while recognizing that any truly effective rationalization of the entire system is a task that remains beyond anything to do with the CMSF alone, since it would require re-visiting the whole system of loans, grants, tax expenditures, debt remission, and other forms of aid.[36]

But CMSF monies could at least be part of a more general move toward improving the student financial aid system, identifying the gaps that exist in that system, and beginning to fill those gaps in the most effective manner possible.

And if and when all students are deemed to have the funds available to meet their schooling costs, as proposed above, remaining funds could be directed towards providing additional grants towards – and thus further encouraging the participation of – groups who tend to be underrepresented in the post-secondary system, not only those from lower income families, but also aboriginal groups, individuals trying to get back into the system after having dropped out of high school, those on social assistance or trying to combine school and work, and others.

This would be money well spent – or, in terms used elsewhere “smart money”. The CMSF and the provincial ministries charged with working with the CMSF should consider moves in this direction.

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ENDNOTES

[need to be identified by related section]

1 Canada, Parliament, *Budget Implementation Act*, 1998, 46-47. Elizabeth II, 1997-98.

2 See “Repo, reverse repo and securities lending market in Canada” by Ron Morrow *Bank of Canada Review* Winter 1994-1995,p 61-70 for more information on the evolution of this market since the early 1970s.

3 This is in agreement with the conduct prescribed for banks by the Office of the Superintendent of Financial Institutions in guideline B-4 , September 1996.

4 Note that political opinions from the provinces and territories were not sought. The provincial and territorial perspectives presented in this report are strictly the views of the individuals who work most closely with the Foundation. The purpose of this report is to assess the performance of the Foundation. It was consequently determined that only provincial and territorial officials who interact with the Foundation would be in a position to evaluate the operational performance of the Foundation.

5 The Government of Québec reached an *entente* with the Government of Canada on October 29, 1999. On December 21, 1999, the Government of Québec concluded an “administrative” agreement with the Foundation.

6 The agreements also reveal subtle differences in the merit criteria from jurisdiction to jurisdiction. British Columbia, Alberta, and Manitoba have the widest eligibility criteria. In these provinces, the agreements state that “The merit requirement...will be satisfied by successful completion *within the last ten years* of 60% of a full year of [an approved course of] studies at an eligible post-secondary institution and through continued enrolment in good standing as a full time student.” Newfoundland has the most restrictive criteria. The Foundation's agreement with Newfoundland states: “To qualify a student must demonstrate merit as evidenced by successful completion of 60% of the first year of the current approved course of study at an eligible post-secondary institution in Canada, and through continued enrolment in good standing in *that course of study*.” It would appear that the five other provinces and the three territories have criteria similar to Newfoundland’s, although the language of their agreements is more vague. The variations in the eligibility criteria doubtless lead to modestly different impacts on access to post-secondary education from province to province, as is the case with the differences in need.

7 On May 14th, 1998, the Québec National Assembly unanimously adopted a motion introduced by Henri François Gautrin, the Liberal MNA from Verdun. The motion stated: “Que, dans l’intérêt des étudiants québécois, l’Assemblée nationale demande instamment au gouvernement fédérale et au gouvernement du Québec de reprendre les négociations sur la question des bourses du millénaire pour en arriver à une entente sur des amendements législatifs qui respectent les principes suivant: 1. La part attribuable chaque année à des étudiants québécois est déterminée à l’aide d’une formule basée sur des paramètres démographiques; 2. Le Québec sélectionne les étudiants québécois qui recevront une bourse; 3. Les bourses sont acheminées aux récipiendaires de manière à éviter tout dédoublement et à assurer au gouvernement fédérale la visibilité nécessaire. De plus, l’Assemblée nationale prend acte de la volonté du gouvernement du Québec d’allouer les sommes ainsi économisées à son programme de bourse, au financement des institutions collégiales et universitaires.” See, www.assnat.qc.ca/archives-35leg2se/fra/Publications/PV/PF980514.htm. The Foundation sought to have all the agreements with the provinces and territories conform to the Gautrin Resolution. It may therefore be viewed alongside the legislation as an operating constraint on the Foundation.

8 “Budget 1998, Building Canada for the 21st Century, The Canadian Opportunities Strategy: Canada Millennium Scholarships,” Government of Canada, February, 1998.

9 David C. Smith, “Programs of the Canada Millennium Scholarship Foundation: Issues, Options and Suggested Directions,” December 21, 1998, p.44-5 (emphasis added).

10 Ronald L. Watts, “Examples of Partnership,” in Roger Gibbins and Guy Laforest, eds., *Beyond the Impasse: Toward Reconciliation* (Montreal: Institute for Research on Public Policy, (1998), p.360.

11 Ibid., p. 360.

12 News Releases, 39th Annual Premiers’ Conference, Saskatoon, August 5-7, 1998, See, www.hrdc-drhc.gc.ca/common/news/dept/9840b2.shtml.

13 See, www.hrdc-drhc.gc.ca/common/news/dept/9840b2.shtml.

14 All the territorial governments chose to apply the Millennium Scholarships on top of the territorial assistance, consequently there was no displacement effect.

15 “Bursary Program Design Alternatives: Dealing with the Question of Net Benefit,” Canada Millennium Scholarship Foundation, undated, p.4.

16 The letter from Nova Scotia is not formally dated, but it has date stamps for October 12 and October 18, perhaps signifying the dates it was sent and received.

17 Québec's commitment was addressed to the federal Minister of Human Resources Development.

18 See, “A Report on Displacement and Provincial Re-Investment,” Canada Millennium Scholarship Foundation Bursary Program, June 20, 2001.

19 *The Daily News*, April 15, 2003, page 6.

20 *Budget Implementation Act, 1998, Part 1*, Article 5. (1).

21 Throughout this chapter, the terms “scholarships”, “bursaries” and “grants” are used interchangeably. By the governing legislation, CMSF awards must take the form of non-repayable grants made to individual students.

22 When student financial aid programs were expanding in the 1950s and 1960s, the goal was "equality of opportunity", which was to be achieved by providing spaces in post-secondary institutions for all qualified students and making sure that the lack of financial resources did not prevent needy students from filling those spaces. That objective has, by and large, been met in the majority of cases, and the focus has shifted to broader definitions of access or "accessibility" and to targeting certain remaining groups for which access defined in the earlier manner is still a problem.

23 Most discussions of post-secondary access are based on an implicit model of decision-making that assumes that potential students weigh the benefits of post-secondary education (including higher earnings and the consumption value of greater learning) against the costs (including tuition fees and foregone earnings). The discussion here is based on such a model, although the assumption that potential students have access to the relevant information and are able to use it properly is a strong one.

24 That is, students have demonstrated a willingness to take on more debt when it has been offered. Preliminary evidence from the recently developed Post-Education Participation Survey (PEPS) conducted by Statistics Canada suggests that debt aversion is not generally a problem, that a significant number of students would have liked to borrow when they did not have the opportunity to do so or to borrow greater amounts, and that some of those who did not go on to post-secondary studies would have done so had they received a government student loan or a greater loan than the one offered (this latter result is very tentative, however, due to the small sample sizes underlying the calculations). These findings are based on research currently underway by Ross Finnie and Christine Laporte that will be published in a forthcoming Statistics Canada Analytical Studies Branch Research Paper.

25 Two kinds of student financial assistance are quite important but are not discussed here, because CMSF spending does not generally take either of these forms. One is federal and provincial aid to institutions, which allows tuition fees to be set a level that covers less than half of post-secondary costs. The other is tax expenditures resulting from tax credits for tuition fees, student loan interest and education-related expenses. See Finnie, Schwartz and Lascelles [2003] for discussion of these.

26 CMSF merit scholarships address other issues and are not discussed in this chapter; they make up only a small share of all CMSF awards.

27 Debt remission programs will tend to deliver more benefits to *current* students than grants or loans that are concentrated on students just starting their studies or not yet even in the system, which may account for some of their popularity among current students and the organizations that represent them. This is especially likely to be the case for remission programs that deliver benefits at graduation, which direct their benefits to students coming out of the system.

28 One province, British Columbia, does include provision for students who return to school after an absence. Such students would clearly have an impact on access, although we have no information on the numbers involved.

29 See the agreement with British Columbia for a rather clear commitment to putting the savings into student financial aid.

30 "A Report on Displacement and Provincial Reinvestment," Canada Millennium Scholarship Foundation Bursary Program, June 20, 2001, p.13.

31 See the other papers on the background-participation relationship discussed in the text for further evidence in this regard.

32 Finnie and Schwartz [1996], Finnie [2001, 2002]

33 Preliminary results from Finnie and Laporte [2003].

34 See Finnie [2001] for further discussion of these and related issues.

35 See Finnie [20003b] for discussion of student financial aid in a broader supply-demand framework.

36 See Finnie, Schwartz and Lascelles [2003] for a beginning discussion along these lines.