Covid-19 and rural economies

Briefing note prepared by staff of the Centre for Rural Economy¹ and Rural Enterprise UK², Newcastle University, April, 2020

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1. Introduction

The Covid-19 outbreak and UK government-led measures to contain it are having widespread effects on rural economies. The disease is affecting all aspects of rural society, both directly when people from rural communities fall ill, but also because of the social distancing restrictions that are in place to limit the progress of the disease. It is impacting household incomes and rural businesses in every sector within our diverse rural economies, as well as charitable and community organisations. Some of these impacts will also be medium or long-term.

Past crises have highlighted the resilience and adaptability of rural economies. The Foot and Mouth Disease (FMD) outbreak in 2001 and the associated rural shutdown illustrated this³,⁴ as well as, more recently, recovery from the 2007/8 financial crisis and recession⁵. Some of the structural features of rural areas, notably their more dispersed population base and their already established tradition of home-based working could well serve to act as a source of resilience during this crisis. On the other hand, more severe restrictions placed in this crisis on personal travel for non-essential purposes may impact more heavily on rural areas, due to the greater dispersal of workplaces, consumer and business services, and the importance of visitor economies to many rural areas.

Thus, there is a need to avoid overgeneralising between places or assuming that their resilience means rural communities can be left to fend for themselves to weather crises, or that their resilient behaviour itself does not have unintended effects. Capacities to withstand and adapt to periods of hardship and crisis are highly variable both between and within communities and among different firms and sectors⁶.

The purpose of this briefing note is to consider how the Covid-19 outbreak is affecting rural economies and to present a set of recommendations for Government. The primary focus is on the UK situation, but the issues have resonance for rural economies in the EU, which face similar issues.

¹ https://www.ncl.ac.uk/cre/
² https://research.ncl.ac.uk/ruralenterpriseuk/
⁴ Bennet K, Carroll T, Lowe P and Phillipson J 2002, Coping with Crisis in Cumbria: Consequences of Foot and Mouth Disease. Research Report 34, Centre for Rural Economy, Newcastle University
⁵ Commission for Rural Communities, 2010 From Credit Crunch to Recovery: the impact of Recession in rural England.
2. Demand and Supply Side Effects

Businesses and sectors are being impacted in several ways. Demand and supply side effects have significant knock on impacts on all sectors, with a decline in any one firm’s turnover having reverberations for linked and allied businesses and their associated households.

On the demand side, we can roughly divide effects into: goods and services consumed in the home (meals cooked at home, fuel, home furnishings, appliances and utilities, streaming services etc.); goods and services consumed out of the home (cafés, restaurants, hotels and hospitality, pubs, leisure centres, gyms, soft plays, garden centres, museums, countryside attractions, public transport, educational facilities, theatres and arts venues, hair salons, etc.); and goods and services traded between businesses. The immediate economic impact during the disease diffusion phase will be greatest for those firms (and their supply chains) unable to provide their produce or services to personal or business consumers other than within their own business premises.

Out of home consumption is currently being affected the most, with businesses in this market facing acute cash flow issues and staff layoffs, either directly when they serve final consumers or indirectly because they supply other businesses geared to out of home consumption. The immediate impact on local rural economies will therefore depend on their composition between goods and services geared to in home and out of the home consumption.

Regarding goods and services consumed in the home there is likely to be both substitution (positive) and income (negative) effects on demand. The positive substitution effect reflects a switch from out of the home to in home consumption (switch from restaurants to home cooking, home delivery, in home entertainment). However, as incomes fall, and insecurity of incomes rise, home consumption is also likely to be negatively impacted with consequent impacts on all firms.

The demand for goods and services will also be affected by the nature of the measures adopted by public health representatives to limit the diffusion or aid the treatment of the disease. Restrictions imposed by the UK governments cut across the drivers, structures and capacities of economies, determining those businesses and facilities that should cease and those that can continue opening or trading, as well as limitations on household and business travel. These regulatory measures effectively overturn standard economic responses of adjustments to changing demand for many goods and services.

On the supply side, pandemics and their associated lockdown predominately affect the availability and productivity of labour rather than land and capital as factors of production. Labour intensive businesses, or those that rely heavily upon occupations and skills deemed by governments to be non-essential, are most immediately at risk and a principal source of wider supply chain disruption, everything else being equal. Here there are a few key things to note:

- Rural areas have a population distribution (including among those who are defined as economically active) skewed to older people, compared to urban. Older people are more likely to require critical care and/or die as a result of Coronavirus. It follows that self-isolating and shielding behaviour will also disproportionately impact rural areas through the availability of (‘grey’) labour for businesses, social enterprise and volunteer work and through the impact of their reduced expenditure on goods and services from local businesses (‘grey pound’).
- As labour relocates to a home working context, this could be more difficult in those rural areas suffering from inferior access to high quality broadband. This weakness will also affect home schooling during closures and be exacerbated by concurrent demands for limited available bandwidth (data transfer capacity) among multiple household members.
Disruption and reconfiguration of supply chains is likely to be especially pronounced for firms relying on international markets—given interruption of port activity, flights and ferry routes (N/B 1 in 10 rural firms import or export internationally, with similar proportions of rural and urban firms exporting to the EU and non-EU)\(^7\). As countries erect measures to prevent the spread of Covid-19, exporting is becoming more difficult and the time taken to reach markets increasing. Export activity will drop as supply side restrictions increase and global demand falls. The UK Government’s objectives of increasing exports, especially to non-EU markets, will be difficult to achieve. Disruption or reconfiguration of businesses and their supply chains may also affect those operating in domestic markets, deemed to be ‘non-essential’, as well as those reliant on personal, employee or commercial travel and/or transport (e.g. educational establishments from schools to HEIs, hospitality and retail businesses, public transport, vehicle hire and house removal businesses etc.). In both these situations there are opportunities for re-orientation of capital, skills and products to enter markets under strain from short term supply challenges, as in the rural health care and food processing sectors, with the potential of retaining these additional supply chains and markets beyond the recovery stages.

3. Agriculture

The impact of the Coronavirus outbreak on farms, forestry and fisheries will be variable. Some will be less affected where operations are deemed ‘essential’, where contracts for produce are already negotiated for medium or long term delivery and feeding into essential food, fish or timber processing businesses, and with direct farm payments continuing. Moreover, the majority of UK farms are family farms where the workforce and capital is already on site, or drawn from their immediate rural localities, with good social distancing, and with many still largely producing for in home food consumption. However, some livestock sales, haulage and auction mart operations may be severely disrupted. Moreover, those supplying the hospitality sector for out-of-the home food consumption, as well as those selling directly to consumers through on farm outlets, will be directly impacted. These will need to adjust to a reconfigured food supply chain. In some areas, shortages on supermarket shelves have been passed back to suppliers and in the short-term has perhaps allowed farms and food processors to place unsold stock and increase turnover, labour permitting. The latter effect, however, is likely to be short lived as stockpiling ceases. Some farm businesses are able to reorient their output from serving the out of home sector (e.g. hospitality) to in-home food consumption supply chains (e.g. supermarket-led supply chains, box schemes, or direct online sales). However, this is not always possible or can only be done with significant financial implications, which may be particularly challenging for small-scale niche operators.

The most heavily affected farms are likely to be those that are dependent on seasonal / migrant labour or sales (for example, fruit and vegetable production, horticultural and garden nurseries etc.). With businesses reliant on workers from the European Union already facing additional challenges to find workers in recent years, difficulties are now heightened during the pandemic. Also impacted are those farms which have diversified into out of the home goods and services selling direct to the public (agri-tourism, visitor attractions, farm shops, home and garden etc.), and those reliant upon non-farm household income sources affected by Covid-19. More broadly, the ability to bring in new post-Brexit policy around public goods at time of social/economic shock may be especially compromised.

4. Communities and social distancing

There are very important mental health, wellbeing and community impacts of Covid-19, linked to the pervading disruption of social relations, structures and community participation, with the switch from out of home to in home lifestyles and more isolated living. Again, this effect is exacerbated for those in rural areas less able to maintain social contact online whilst social distancing and shielding. These impacts are potentially acute for those people already suffering from rural vulnerability, loneliness and social isolation, and compounded further for those with poor availability of high-speed broadband or mobile signal coverage. Where these people are dependent on carers, the carers themselves may be unable to offer the fullest level of necessary support due to social distancing. Furthermore, with access to essential services already more challenging in rural areas, and with less service capacity and critical mass of key workers (doctors, care workers, emergency services, pharmacists, etc.), rural areas’ vital services are especially vulnerable and at risk of becoming overstretched should these people fall ill, are required to self-isolate or if there is a rapid increase in cases within local communities linked to their ageing demography.

There is emerging anecdotal evidence that Covid-19 is opening up new tensions within and between communities over social distancing and purchasing behaviours, including examples of ‘othering’ of commuters and urban visitors to the countryside over fears of disease spread and scarcity of provisions. There has been widespread media coverage of roadside signs asking visitors to stay away from the Lake District and rural Wales, for example, sometimes reinforced by police checkpoints. Visits to second homes as rural sanctuaries have been especially divisive.

Less visible in current considerations of mental and social wellbeing, but potentially as challenging in many communities, is the impact on young people. Many students and young people will have been isolated from friends and support structures by the closure of schools and colleges, transport options and meeting venues, and further frustrated in some rural areas by potentially inferior online access or mobile signals. Some will be confined to small, dispersed communities with few, or even no, similarly-young residents, whilst others will be less able to share and soothe their anxieties with peers about impending examinations, or transfers to higher-level schools and colleges.

Covid-19 is itself prompting many positive responses of community, neighbour and volunteer support. How public, private and third sectors effectively work together, and crucially with the rural voluntary, community and social enterprise (VCSE) ecosystem, is critical to the immediate emergency response and will be vital to longer-term recovery. However, whilst the VCSE sector is adept at balancing social, economic and environmental needs, it has been heavily stretched in the years leading up to the pandemic as the onus of responsibility for provision of many local services has fallen back onto communities themselves. With less critical mass in rural areas, the VCSE sector here may be especially vulnerable to Covid-19. The biggest worry for many VCSE organisations, including foodbanks and hospices, is their immediate financial viability, with the loss of most of their sources of income (revenue from charity shops, fundraising events) at the very time when demand for their services is growing apace. Moreover, with social shielding of older populations, who are an important source of volunteer labour, the sector is facing challenges linked to labour availability. Thus while the crisis offers opportunities for rural communities to make use of and to strengthen existing volunteering and neighbourliness, a weakness of the rural social support system is the reliance on older volunteers to look out for an ageing population and other vulnerable groups. There is a need for governments to view organisations in this sector in a similar light to private and public businesses and employees, and provide financial support to sustain their viability. Support is especially justified, given that in many rural communities they may play the leading role in organising and supporting older, young and vulnerable residents. They may need to bolster younger
volunteering and neighbourliness and repurpose older volunteering to fit with current restraints on the limits placed on their movement. These extra demands urgently need external support.

Many of the core rural institutions also face a struggle for financial survival because of the impacts of Covid-19, including village halls, village shops and pubs. ACRE and the Rural Coalition report⁸ that the ability of village halls to weather the storm is uncertain. They are already stepping into the breach and providing many services to the community, such as drop-off/collection points for shopping and medication, and some house services such as nursery, playschool, foodbank or post office. But their regular sources of income are ceasing as social events, clubs, meetings are cancelled. Some are already closing and, without sufficient reserves, may not be able to open again. Village shops are a local lifeline, especially during the crisis, but they are vulnerable to the shopkeeper contracting the virus and having to close. Village pubs are far more than suppliers of food and drink, providing an important public space as well as other services, and they may also be financially fragile. ACRE has called for additional support from government to keep village halls afloat, perhaps through a special revenue grant and a loan repayment holiday.

5. Gender and the rural economy

There are many gendered implications of Covid-19 for rural areas. Many of the frontline occupations affected by the virus impact on women. Teachers, carers and nurses are predominantly women. Research has consistently shown that women are predominantly responsible for childcare and home schooling is likely to have gender implications within the family. Women rural entrepreneurs and women who have undertaken farm diversification initiatives have often done so to fit around their other childcare and caring responsibilities⁹. Maintaining these businesses while undertaking additional Covid-19 caring roles will be a challenge. There may be gendered effects that will mean differential access to household assets that can be used to buffer the effects of Coronavirus on firms. During FMD, male owned firms were far more likely to draw on unpaid labour of household members and female owned businesses were less likely to use household savings to ease cash flow or to take on additional loans or debts, to limit risks to family and households.

6. Rural resilience, coping and adaptation

Household, community and business impacts and coping responses are closely intertwined. Rural business coping and adaptive responses depend on the prior availability and use of assets (financial, physical, social, human etc.) within business households and their supporting community networks, and critically on the scale of any business or household reserves prior to the external shock¹⁰. Business income is only one of a package of financial strands that sustain many rural households and firms in times of crisis - waged work (casual, part-time, full-time); occupational pensions, investment income and state benefits; and savings, reserves and credit are also part of the mix. During FMD, this ‘pluriactive’ income portfolio, characteristic of many rural households, proved essential in cushioning reduced flows of income and ameliorating cash flow problems. Rural economies with higher levels of self-employment and small and micro-enterprises with limited solvency and cash reserves are likely to be less prepared to weather Covid-19 disruption.

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⁸ Joint letter “Covid-19 and Rural Communities” to DEFRA Secretary of State from the chairs of ACRE, Plunkett Foundation, Rural Services Network and Rural Coalition, 20th March 2020.
Coping and resilience processes themselves often generate secondary social and economic consequences for household members and employees. The knock on effects of FMD on flexible rural labour was considerable but often hidden from official statistics or supports, with impacts felt through letting go of casual and seasonal workers and reduced hours for retained employees. Covid-19 may similarly impinge significantly, though less visibly, on those with part-time, seasonal, low income and more irregular work, and who may more easily fall through the cracks in support provision. The coping strategies of rural micro-firms, moreover, depend heavily on the use of spousal and household labour on a flexible unpaid basis, with households providing vital emotional support for business owners. Coping strategies also involve cut backs in household consumption, investment and spending to compensate for reduced income flow from businesses to the household.

In contrast, it is also likely that Covid-19 will stimulate many examples of innovative community and business responses and adaptation across rural areas, and from which learning should be distilled. To what extent, for example, will some creative and digital businesses be able to take advantage of opportunities afforded by people working from home? Some businesses too are likely to be inundated with additional demand, or identify complementary or alternative products and markets, and in turn these will require innovation in their processes, goods and services.

7. Recovery measures

The sectoral, spatial and community impacts of Covid-19 and the measures to contain it will be significant and far-reaching. For some industries and localities urban-driven recovery will reach into some rural economies. For most rural places, the interconnected nature of rural economies will demand a cross sectoral response, with measures addressing and stimulating both demand (e.g., encouraging consumption, tapping into new markets) and supply (e.g. encouraging production) challenges. Throughout and following the pandemic, businesses will be left with an immediate legacy of debt, reduced financial reserves and investment capability, disrupted trade, delayed growth and investment, disruptions to their employee base, unsold or outdated stock and reduced marketing budgets. These effects will adversely affect their ability to recover once the immediate crisis passes.

Monitoring of business impacts, resilience and recovery will need to be ongoing, and long term as firms and social enterprises in different sectors and places are impacted and recover at different rates. Experience of FMD and credit crunch/recession showed that for some firms and rural economies the recovery will be swift, for others it will be delayed and this pattern is likely to be repeated in the aftermath of Covid-19. Recovery and future research will also need to be mindful of the long term trauma and consequences for communities and, learning from other contexts where previously this has been well explored, how to regenerate depleted rural communities.

A starting point for economic recovery, however, is the effectiveness and equitable distribution of the current and evolving business and community support package during the Covid-19 outbreak. It will be vital for the UK governments to monitor the design and delivery of such business, employment and community support interventions, for their rural relevance, uptake and impact. During FMD, when large swathes of the countryside closed for several months, as measures were taken to prevent the spread of the disease, it was apparent that many firms had not sought or obtained special assistance. These included some that were severely impacted, and many were frustrated in their attempts to access aid or fell through the gaps of the support framework. On the other hand, during the 2008-10 Recession many rural firms showed a resilience that exceeded that of many urban economies. But they then struggled to gain equitable assistance for recruiting.

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training, and marketing due to weaknesses in support provision in their rural areas, or because recovery funds were perceived to have greater impact if oriented to city or urban locations and sectors.

The Government has begun to address important gaps in its suite of early support measures and, with special importance for rural economies, this recently included extension of measures to the self-employed who are proportionally more significant in rural areas. However, concerns have been raised (and recommendations put forward) concerning the eligibility for support by large numbers of self-employed businesses (including those recently established or for whom self-employment is a second job), and their access to small business grants (for those that do not have premises or employ staff to meet centrally-defined eligibility criteria), which presents a particular ongoing challenge for early stage rural entrepreneurs\textsuperscript{12}.

Further potential weaknesses in the Covid-19 support measures remain in relation to its delivery in rural areas and support of cash flow. Over-demand and under-capacity for online registration to access support from Job Centre Plus and HRMC is a deterrent and especially so for applicants who find themselves in weaker broadband locations unable to access information, advice and application processes. In normal conditions rural business applications for cash flow finance tends to be more targeted to and reliant on credit cards and overdrafts than on loans and bank finance. Decisions pertaining to payment holidays or help with late or non-payments for such funds reside with the banks, and their response should therefore also be monitored for rural reach and relevance. Additionally, seasonality of cash flow can be the determinant of success or closure, so timeliness as well as appropriateness of external help is needed, and should be monitored.

Support may also be lacking or dispersed for individual businesses or business sectors to encourage re-tooling, re-direction of supply chains, or new place or sector-based initiatives to co-ordinate and promote ‘non-essential’ businesses and the marketing of their goods and services. Business sectors and local initiatives are already taking the lead with supporting such initiatives, but they could benefit from access to funding to facilitate and extend their work.

A key gap remains within the Government’s package of measures in relation to a more explicit support stream for VCSE sector. Covid-19 only serves to further emphasise the imperative for community capacity building and support through the rural VCSE sector, which requires urgent assistance during this containment phase to allow it to help individuals, households and communities during the pandemic and recovery.

Finally, the Government has announced a package of measures to support households which lose income from employment or self-employment as a result of the Covid-19 crisis, partly through paying up to 80% of those laid off temporarily (furloughed) by their employers and partly through encouraging them to claim Universal Credit. These measures will be very helpful, but it is important that these are sensitive to rural circumstances. Ongoing research on Rural Lives\textsuperscript{13} is revealing a number of difficulties facing claimants of welfare benefits such as Universal Credit in rural areas. These include the system’s complexity, flaws in its design and the digital skills and access required. The complexity of the system is an issue for residents of rural areas, given their distance from sources of advice and support, as is the necessity for regular digital interaction both in registering and making a claim and in maintaining a very full online ‘journal’ thereafter. The system struggles to deal with the irregular and volatile earnings which are common in rural labour markets, often leading to overpayment of benefits which are then clawed back too rapidly for low budget


\textsuperscript{13} Mark Shucksmith, Polly Chapman, Jane Atterton, Jayne Glass. www.rurallives.co.uk
households to withstand, increasing the risk of debt. This enhanced risk of debt is also a concomitant of the five-week delay when first claiming Universal Credit, whether the gap is filled through a payday loan or through a social fund loan, with foodbanks seeing this as a major defect. In the context of Covid-19, then, there is a danger that encouraging people in rural areas to claim Universal Credit as the primary means of supporting their incomes through the crisis may be less effective because of the lack of access to advice and support, the inadequate digital infrastructure and the delays built into the system, all of which are likely to increase financial hardship and vulnerability. Moreover, those who move across from legacy benefits to universal credit as a result of their change of circumstances may find that their benefits are reduced and less secure than hitherto even after the Covid-19 crisis is over.

Therefore, we would urge the UK government to:

- Introduce support measures for social and community enterprises active in rural areas, as these will be providing the (often voluntary) support to vulnerable groups of residents, including those older people with underlying health conditions, those on low income or benefits, school aged and young people, but with limited or declining resources.
- Review the effectiveness in rural contexts of the measures to support household incomes announced by the Chancellor and make any adjustments necessary. These might include removing the five-week delay in making Universal Credit payments.
- Ensure that government departments, LEPs and Local Authorities are monitoring and regularly reporting impacts of the government’s pandemic restrictions and business support measures on rural places, as well as city and urban economies and communities, and adjusting their support to ensure equitable delivery.
- Explore support for collaborative or collective efforts by ‘non-essential’ businesses currently facing some of the most substantial losses of trade, to find new ways to market and deliver their produce and services to consumers, which do not break travel and social distancing restrictions, especially in rural areas or sectors that cannot rely on online trading and household delivery.
- Explore ways of rural land-dependant businesses to swiftly access additional labour for farm and horticultural produce to enable their seasonal food and drink produce to be supplied to UK consumers, whilst current restrictions on consumers and businesses prevail.
- Review the measures introduced to support recovery of rural economies and communities after the Foot and Mouth Disease (FMD) outbreak, and the Credit Crunch and Recession, for their effectiveness and relevance to the current health emergency, to assist with the design and delivery of future measures.
- Take into account the diversity and linkages between urban and rural economies, and within these rural economies, before any phased relaxation of Covid-19 business closures and social isolation is considered. Phased relaxation of travel and community meetings will have different impacts and potentially pose less challenges to deeply rural areas, than those highly dependent on commuting to urban workplaces or upon visitor economies.
- Put in motion plans for a medium term package of measures to help reboot and build capacity among rural businesses, social enterprises and their networks, including a micro grant scheme distributed via a bottom up Leader style approach according to local needs and opportunities.

8. Long-term effects

During the post-disease phase, actions will be required to reset the economy, as well as addressing its impacts on rural communities. However there may also be longer term effects. One long-term ramification of Covid-19 may be to accelerate firms substituting capital for labour to reduce vulnerability to future pandemics (particularly in an environment where the costs of capital investment, through low interest rates and government loans, will be low). This may affect things
like social care where there may be a further push to develop technological aids to help older people stay in their homes and remain independent rather than enter residential care or require daily care visits. It is possible that Covid-19 will make rural areas more attractive for the future, given the space they afford. This raises questions over trends to centralise health care and other services.

An open question concerns the extent to which changes in household, business or supply chain behaviours brought about by the pandemic will return to their original state after it has run its course. Once it is over, flights will resume, cinemas reopen, and commuting return. However, a proportion of activity may not recover, for example as some people may continue to work from home, get out of the habit of going to the cinema, or find some work trips are expendable, whilst some owners may be unable to raise capital, recruit employees or find new owners to resurrect businesses. Some of the core institutions of rural life, such as village halls, village shops and pubs, and voluntary and community organisations, may have perished.

Big questions may be raised. For example, will preferences for and the pace of rural remote working and living accelerate as businesses and employees realise that in many instances they can work remotely away from the crowds? Will the pandemic lead to greater appreciation for British food and shorter supply chains? What are the implications of the pandemic for how in future we support the rural VCSE sector and what scope is there to explore alternative organisational structures and enterprises that align with social objectives? What future demographics and population movements may unfold? Will there be an increase in households producing their own home-grown food? Will fewer people choose to holiday abroad and could this mean a revitalisation of rural destinations that will last beyond the short term? How will rural-urban dynamics evolve as part of complex system of provisioning of ecosystem services across multiple areas from food production to tourism and leisure? How might the pandemic lead to innovation in service provision, digital technology, energy use and production? What might be the environmental impacts and opportunities for rural areas of these potential longer term effects? How will the shock of Covid-19 impact on these dynamics and prospects long term?

Answering these questions about the long run implications, some of which may be desirable and other less so, will be an important focus for future research, policy analysis and much needed rural foresight.