

### **Box 1. Policy Impact of the Village Level Studies**

Although we cannot cite specific examples where a particular finding from the VLS in and of itself directly led to a sectoral policy change, we can document instances where positive results were consistent with the subsequent maintenance and implementation of pro-poor policies and where ineffectual policies were not carried out in accordance with negative results that argued against such policies or called for their modification to accommodate the needs of the poor. Examples of these two contrasting cases are cited below.

**The Maharashtra Employment Guarantee Scheme (MEGS).** During the late 1970s and early 1980s when the VLS were active, the MEGS was arguably the largest public works scheme in the world. Its large scale application grew out of what was called the 'never in a 100 years' severe drought of 1972. Members of respondent households in the rainfall-unassured Sholapur Region participated heavily in the MEGS. Six papers were published on the consequences of the MEGS based on participation of respondent households in two VLS villages.

Although some concerns were expressed about exhaustion of possible work sites near the village and the non-graduation of some participants, the findings from the VLS data were largely favorable for a public-works program patterned along the lines of the MEGS. The self-targeting character of rural public works was clearly visible in the study villages in the early 1980s. Wealth in the form of total assets was strongly and inversely related to participation. The size of that relationship was particularly large for women: as wealth increased, women's participation declined more sharply than men's. Other studies documented that participation in the MEGS conferred risk benefits in the sense of increasing the stability of household income. Research also showed that the opportunity cost of participation was not significant. As long as the household workforce contained one able-bodied member and real wages were low enough to select for those in need, that household could benefit from the MEGS. Today the MEGS is still a viable institutional program in Maharashtra, and its design has been emulated in several other states in India.

**Crop and Rainfall Insurance.** Crop insurance is based on yield thresholds below which indemnities are paid to the farmer. Unlike some other developing countries, the crop insurance program in India was financially sound as indemnities were tied to yield estimates on a homogeneous area approach whose results could not be manipulated by farmer behavior. Research in VLS addressed whether or not such crop insurance in general and the homogeneous area approach in particular could be effective in stabilizing household income. Largely because of diverse sources of income and the high incidence of area variability analysis of 10 years of household production data found that stabilizing the yield of the major field crops would not significantly decrease fluctuations in household income regardless of program design. Crop-specific insurance would only reduce income variability by 3-4% and such a modest reduction would be worth only about 1 percent of household income. Counterintuitively, the crop that conferred the highest risk benefits was irrigated paddy in the Andhra Pradesh villages because of its large role in household income.

Rainfall insurance that addressed fluctuations in planted area was viewed as a better bet than crop insurance to enhance income stability in the VLS. A doctoral dissertation was completed on the expected effects of rainfall insurance in 1991. A market-based rainfall index scheme began in two of the VLS states in India in 2003. ICRISAT is currently conducting research on the effects of this scheme to assess demand for this novel approach. In terms of advocacy, the Economic and Political Weekly, which is widely read by policy makers, was an important outlet for both the research on the impacts of MEGS and the expected stabilization effects of crop insurance.