THE IDDIR:
AN INFORMAL INSURANCE ARRANGEMENT IN ETHIOPIA

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ABSTRACT

In the absence of formal insurance services, smallholder farmers are devoid of effective ways of managing numerous risks they encounter in their daily lives. One response mechanisms common among rural households is reliance on network-based collective action arrangement driven by motives of reciprocity and altruism. The indigenous financial institutions constitute a striking example of risk-sharing and risk-pooling arrangements widely practiced by the bulk of rural communities in Africa. Of these arrangements, the Ethiopian iddir *can be considered as a unique and viable institution worth investigation to understand its nature and logic.*

Drawing on the synthesis of the available literature and household surveys, this study attempts to explain the essence and dynamism of iddir*; describe its risk-pooling and risk-sharing mechanisms; investigate the principles and rules underlying its procedures and operations. It also assesses its rules using an analytical framework known as the "institutional analysis and development framework".*

This study can contribute to the debate concerning the logic and potential of informal institutions in, partially, meeting the insurance needs of smallholder farmers. It is important to understand and promote the mechanisms by which indigenous arrangements attempt to bridge the gap left by the formal sector.

Keywords: Informal Insurance Arrangements, Risk-pooling Mechanisms, Institutional Analysis and Development Framework, and Iddir.

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1. INTRODUCTION

Iddir, as will be defined below, is an informal insurance arrangement ubiquitous in both rural and urban Ethiopia.

Though popular among people in all walks of life in both rural and urban

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Ethiopia, the importance of this fascinating institution – *iddir* – was little researched until early 1990s (Dejene 1993a; 1993b). Then after, however, two strands in the study of *iddir* have emerged. The first is studies conducted within the framework of neoclassical economics (Dercon et al., 2006; Dercon et al., 2008; Dercon, 2009) using, mainly, longitudinal data collected by the Department of Economics, Addis Ababa University beginning early 1990s. Most of the researchers involved in these studies are from Oxford University and International Food Policy Research Institute (IFPRI). Using the standard economic analysis techniques, they have attempted to create the impression that *iddir* is simply a "funeral association" or "a burial society" providing insurance services that cover functional expenses like other mutual support networks common in Africa.

Furthermore, these studies have failed to fully explain the logic and dynamism of *iddir* in meeting the insurance needs of smallholders exposed to multiple sources of risks. In an attempt to meet the standards demanded by mainstream economics, the authors have relied heavily on quantitative analysis of longitudinal data collected using structured and bulky questionnaires. They have made little attempt to investigate those principles and rules underlying the formation and operations of *iddir.* Besides, they have made little attempt to refer to and build on available studies undertaken by scholars from other disciplines or even from alternative schools of economics. The use of terms like "collective action", "information asymmetry" and "network density" cannot absolve them from an over-obsession with the postulates of neo-classical economics. Moreover, these authors have made little attempt to investigate the institutional performance of *iddir* in terms of the desirable qualities of a financial institutional (such as efficiency, equity, sustainability).

The second strand of literature on *iddirs* is the one produced by scholars coming from different disciplines or schools of thought including institutional economics, business economics, anthropology, and sociology (Dejene 1993a; Dejene, 1993b; Dejene, 2002; Dejene, 2003; Pankhurst 2003; Viganò 2003; Yemisrach 2002; Viganò et al., 2007). Using mainly qualitative approaches, case studies, and cross-sectional household surveys, these scholars have accumulated a wealth of evidence revealing the logic, procedures, and complexity of *iddir*s in both rural and urban areas of Ethiopia.

However, knowledge of this viable financial institution still remains incomplete. Of a number of questions that need further investigation, we can single out the following: 1. what are the specific features of *iddir* that make it different from the common funeral associations and other mutual support networks? 2. What mechanisms do *iddirs* employ to pool and share risks facing rural people having limited or no access to formal insurance arrangements? 3. To what extent are *iddirs* inclusive with respect to poor householders and women? And 4. Can *iddirs* be used by development actors as mechanisms to reach the poor? In brief, further investigation is required to determine whether or not *iddirs* meet the major criteria used to assess the nature and performance of informal insurance arrangements.

This paper, which mainly draws on synthesis of available qualitative information, attempts to address the questions raised above, and related ones, using a technique known as "institutional analysis and development" framework (IAD) (Ostrom 1990; Ostrom, 1999; Koontz 2003). Drawing on the theory of collection action the IAD framework allows to assess the bylaws (or the rules) of *iddir* using concepts such as position rules, boundary rules, authority rules, aggregation rules, scope rules, information rules, and pay off rules (see Table 3). Also, this framework allows us to assess the overall institutional performance of *iddir* in terms of appropriate criteria such as efficiency of service provision, equity (including inclusiveness, accountability, sustainability and adaptability). The paper also draws on Brown and Churchill (2000) to assess the nature of *iddir* in terms of the basic principles of insurances arrangements operating in low- income countries. These principles provide that: 1. there should be a large number of similar personnel (households) exposed to a defined risk; 2. The policy-holder should have no, or limited, control of the insured event; 3. There should be an insurable interest; 4. Losses should be determinable and measureable; 5. Losses should not be catastrophic; 6. Chances of losses should be calculable. And 7. The premium should be economically affordable.

2. A CONCEPTUAL FRAMEWORK

In the absence of formal insurance services smallholders are devoid of choice, but resort to indigenous support networks, and design response mechanisms to minimize the adverse effects of shocks arising from different sources of risks (including the vagaries of nature, price fluctuations, and institutional instability).

Indigenous insurance arrangements constitute one of the response mechanisms, developed over time through network-based collective action arrangements, to cover individuals' specific shocks. Party because of limited per capita income and the need to avoid or minimize transaction costs, indigenous (informal) types of insurance arrangements cover only an individual specific or idiosyncratic risk such as the death of the bread winner, death of draft oxen, and crop damage by pests. Furthermore, the said insurance services are provided within an integrated community setting, such as the village. As demonstrated by Bardham and Udry (1993), a substantial portion of income shocks faced by rural households in poor countries are idiosyncratic in nature and they can be addressed by local risk-sharing mechanisms.

Put differently, poor households, whatever degree of collective action they have attained, are incapable of putting in place insurance arrangements to cover covariant (or common) risks, such as drought and price risks. As argued by Platteau (1991) and Alderman and Patson (1992) only partial insurance arrangements are possible within integrated rural communities. However, the notation of "partial insurance arrangements" does not necessarily imply that idiosyncratic risks are fully covered. And yet, informal insurance arrangements play a key role in the livelihoods of the poor, though they tend to diverge into first-best risk-sharing arrangements (Coate and Ravallion, 1993).

What factors motivate informal (or indigenous) insurance arrangements in traditional or semi-traditional societies? Is it altruistic behavior of households living in integrated communities, or reciprocity driven by self-interest? Two perspectives emerge concerning these questions. The first is the moral economy argument that proposes altruistic behavior (which is embedded in the cultural background of societies) as factor motivating informal insurance arrangements (see Scott 1976; Thompson 1971). The second perspective suggests that the tradition of reciprocity, based on self-interest, motivates individuals and households to engage in informal insurance arrangements (see Popkin 1979; Coate and Ravallion 1993). The two perspectives are modeled and their empirical foundation is reviewed by Besley (1995).

Which perspective, then, can best explain informal insurance arrangements such as the *iddir*? As shown in this study these perspectives are not mutually exclusive. As demonstrated by (Platteau, 1991), the anthropological literature suggests that both self-interest behavior and the rule of custom and norms are required to sustain the collective action efforts of the rural poor. That is why Platteau (1991) prefers the notion of "social security" economy to one of the "moral economy".

The dual characteristics of informal insurance arrangements (the motivation altruistic behavior and reciprocity) imply the unity and interactions of opposites with in a single institutional arrangement: the co-existence of non-market behavior and market behavior; social networks and individual-to-individual interactions; free services rendered by group-leaders and payment of compensations and so on. Furthermore, informal insurance arrangements often exhibit certain distinct features such as:

i). Context-specific and historical determinism;

ii). Low or no transaction costs, mainly, due to symmetric information (problems of moral hazards and of adverse selection are insignificant);
iii). Limited horizontal expansion (mainly due to problems of adverse selection and of moral hazards);
iv). Considerable degree of inclusiveness; and,
v). Partly because of necessity and social pressure, individual decisions are circumscribed by the decisions of the community.

The last point implies that individual choice has little role to play with respect to the decision to participate in an insurance arrangement, choice of alternative arrangements, or the decision to withdraw from a group based arrangement. Although it is beyond the scope of this study, one can propose that by modeling and demonstrating this hypothesis, it is possible to show that a key postulate of neoclassical economics-the assumption of methodological individualism cannot fully explain social security arrangements, such as the Ethiopian *iddir*.

The "social security" argument of Platteau (1991) (which draws on the theory of collective action) can be demonstrated with reference to indigenous insurance arrangements such as *iddir.*

3. TOWARDS THE DEFINITION AND ORIGINS OF *IDDIRS*

Iddir can be conceived as an ubiquitous indigenous insurance institution (found in Ethiopia) that covers different risks such as funeral ceremonies, death of major productive assets (such as draft oxen), medical expenses, food shortages, and so on. Mauri (1987, pp. 6-7) defines *iddir* as:

> Association made up by a group of persons united by ties of family and friendship, by living in the same district, by jobs, or by belonging to the same ethnic group, and has an object of providing mutual aid and *financial assistance* in certain circumstances… In practice, the *iddir* is a *sort of insurance program* run by a community or a group to meet emergency situations [emphasis in Italics added].

This definition clearly brings out the provision of insurance service as a defining feature of *iddir*. The author, well-informed as he is, has clearly indicated this feature by including the phrase a "sort of insurance program" in the above definition. Another, key phrase that he uses in his definition is "financial assistance." This term conveys two messages: (i) transaction through *iddir* takes place via money and (ii) *iddir* is a group-based mutual support arrangement. The author however does not tell whether financial arrangements are made on the spot (at the time of shock) or, whether arrangements are *ex ante* (i.e. whether arrangements are made before the shock takes place).

This study proposes that *iddir* can be considered as an indigenous insurance arrangement characterized by regular and *ex ante* payment of fixed amount of money to a common pool set up by a group consisting of members who have symmetric information about each other (Dejene 2003; 2002; 1993a). By implication, *iddir* is different in several respects from the funeral associations found in many parts of Africa.

As regards the features of *iddir,* the following should be spelt out (Dejene 2003; 2002; 1993a):

i). It is based in part on the *principles of reciprocity*, coupled with some elements of altruism such as reduced premium for very poor women

ii). *Regular payments* (savings in to the pool) *in cash* (its distinct feature).

iii). Payment *of fixed compensation* (for pre-defined shocks, such as death of the bread-winner, loss of draft oxen, credit needs, etc.) for a member experiencing a shock.

iv). *Ex-ante arrangements* (before the shock takes place) to cover idiosyncratic (individual) risks.

v). High degree of *permanency* and *sustainability* as an institution.

In a sense, *Iddir* can be considered as a *social capital*, because it is built upon the principles of collective action for mutual benefit, relations of trust, reciprocity, common rules (by-laws), social sanctions, and social networks (Dejene 2003).

Iddir co-exists with other forms of mutual support networks, which can be considered as the forerunners of *iddir* itself. That is, *iddir* constitutes a part of other risk-spreading and risk-pooling arrangements commonly practiced among villagers. For example, a rural community survey conducted by the Department of Economics Addis Ababa University suggested that any villager experience a devastating shock (like destruction of a house and property due to fire) may be entitled to financial, material, or labour support from villagers irrespective of *iddir* membership requirements.

Of all community-based organizations in Ethiopia, *iddir*s, though far from being ideal, can be said to be the most egalitarian, broad-based, transparent, and accountable. In rural areas most *iddir*s operate on the basis of social sanctions and cultural norms, while in urban areas they function mainly on the basis of written by-laws framed by the general assembly of all members. The by-laws define objectives of the association, powers and duties of members, amount of contributions and compensations to be paid, the place and time of meeting, penalties, and so on. In many *iddir*s, major decisions are made by the majority vote on the general assembly of all members.. The decisions of the general assembly are implemented by the executive committee (which consists of the president, secretary, treasurer, book-keeper, and other elected members). In most cases, a member who withdraws from *iddir* is not allowed to claim his/her contribution (share); many of the *iddir*s forbid the transfer of rights (except to a spouse). *Iddir* office-holders are expected to render free services or any other compensation.

Tracing the origins of *iddir* has remained controversial. Some think that it originated in urban areas among migrant population in general, and the Gurage ethnic group in particular (see Pankhurst, 2003). Authors like Dejene (2003) argue that *iddir* first originated in rural areas where mutual support networks are strong, but assumed its present form (contributing fixed amount of money on regular basis) in urban areas where problems of information asymmetry necessitate written by-laws and where the economy is relatively monetized. That much is known about the origin of *iddir*, Pankhurst (2003, p. 17) notes that "the question of the origins of *iddir* is still an area where there is a need for careful historical research."

A related but quite important question is whether *iddir* is an institution unique to Ethiopia or whether it is basically similar to funeral associations widely embraced countries across the region of Africa. Regarding this issue, Pankhurst (2003, p. 14) underlines that: "even if there are parallels with other countries, there is no evidence of borrowing or influence." But, it is not clear what Pankhurst meant by the term, "parallels." Perhaps, he may be referring to funeral associations, which, by definition, are different from *iddir*s (see the definition of *iddir* given above). In his comprehensive survey of the informal finance in Africa, Aryeetey (1995) has not identified any mutual support arrangements comparable to *iddir* with respect risk management strategies.

The only indigenous insurance arrangement (in Africa) that appears to be similar to the *iddir* in Ethiopia is the "happiness-unhappiness funds" of Benin. In a study undertaken by LeMay (2006, p. 1), these institutions are described as arrangements having "well-defined rules and regulations, offering premium-based insurance for funeral expenses, as well as other forms of insurance and credit to cope with hardships." Further, the said institutions are guided by written by-laws and maintain well-organized book-keeping systems.

"Happiness-unhappiness funds", however, are qualitatively dissimilar from the Ethiopians *iddir* due to the fact that the latter do not engage in *ex-ante* payment of premium. In the former, members gather for a meeting on the spot and make fixed contributions, the sum of which is collected by a member facing a shock. The "Happiness-unhappiness funds" pay variable indemnities, which depend up on the severity of shocks and the amount of contributions are made on the spot. In the words of LeMay (2006, p. 2) indigenous insurance in Benin are described as follows: "Usually, a group of people gather on a regular basis. During a meeting members who suffer from an adverse shock can put in a claim to the group for an indemnity according to the nature of the shock. Group rules always specify a list of shocks eligible for indemnity as well as the corresponding amount of indemnity offered. Once it has been agreed that a member can receive an indemnity, each member has to provide, on the spot, an equal amount of cash. A recipients indemnity is thus the sum of all other members' individual contributions. This process continues until all members have received a fixed number of indemnities, thereby completing a whole cycle".

Studies show that *iddir* has been expanding at rapid rates (Dejene, 1993b; Dejene, 2002; Pankhurst, 2003). The rapid growth and increased popularity of *iddir* (often accompanied by the emergence of hybrid forms) can be explained, in part, by: (i) the occurrence of the social revolution of 1974 (which brought to an end aspects of traditional mutual support systems); (ii) growing economic insecurity accompanying the deepening of poverty in the country; (iii) increased exposure to different sources of risks; and (iv) conducive policy and institutional environment often created during time of transition from one type of political regime to another (such as mid 1970s and early 1990s). For example, there was proliferation of civil society organization following the fall of the military government in 1991.

Far from being stagnant and change-resistant, *iddir*s have exhibited resilience and innovative features in the face of changing circumstances and environment. The following hypotheses are in order regarding the dynamism of *iddir*s (Dejene, 1999a):

- Increased tendency towards formalization (for example the by-laws of some *iddir*s have become more and elaborated and sophisticated).
- Increased provision of multiple services other than insurance policy (for instance, some *iddir*s have began extending credit to members).
- Income diversification efforts (such as renting out halls, tents, and other facilities).
- Increased formation of hybrid *iddir*s (which include formation of iqqub within an *iddir*, and formation of *iddir* within, recreational associations and, religious association, etc).
- Increased transaction costs following increased size of some *iddir*s;
- In semi-urban and in rural towns there has been increased links with the formal financial sectors (such as depositing savings with banks).
- Fast expansion and diffusion of various types of *iddir* (other than community-based *iddir*s).
- Increased involvement of some *iddir*s in community development efforts.

4. THE RISK-POOLING AND-SHARING FEATURES OF IDDIRS: MEMBERSHIP, PREMIUMS, AND COVERAGE

As indicated in Table 1, Viganò (*et al*. 2007), and a survey conducted by the Department of Economics, Addis Ababa University suggests that as much as 77 percent of rural households in Ethiopia participate in various types of *iddir.*

The size of rural *iddir*s varies widely between different geographic areas. For example, *iddir*s are more popular in the southern part of the country than the northern part (Dejene, 2002). As indicated in the table below, rural surveys suggest that, in some villages, the average size of an *iddir* is 100 persons, while annual contributions ranged from an average of 10 birr to 55 birr (currently ETB 13.5=US$1). A survey of thirteen villages revealed that on average a member contributes ETB 46 per year.

Table 1: A Summary Statistics of Rural Iddirs

Variables	13 villages in all major regional states of Ethiopia[1]	17 villages in major coffee growing areas of Ethiopia[2]
Average size of members (persons)	100	N.A.
Annual contribution to *iddir* (ETB/per member)	55	10
Average collection from *iddir* (ETB per member)	46	N.A.
Proportion of households participating in *iddir*s (%)	77	76

Source: 1. Ethiopian Rural Household Survey, conducted by the Department of Economics, Addis Ababa University
2. Viganò (et al., 2007).

As noted by Dercon (et al., 2008), *iddir* provides multi-sided insurance services other than life insurance. The study noted that, in addition to providing what, in effect, is form of life insurance, a third of the *iddir* (to which these households belonged) provide cash payouts to their members when they have experienced other forms of adverse shocks and a quarter offer loans.

The same study has gone further, and detailed out the types and magnitudes of insurance coverage provided by community-*iddir*s. Of the households in the sample, 100 percent provided a sort of life insurance while, in addition, 20 percent provided coverage for fire; 10 percent for illness; 7 percent for loss of essential livestock; 6 percent for destruction of houses; 5 percent for weddings; 3 percent harvest loss; and 6 percent for other event.

Table 2 underlines the diverse services provided by rural *iddirs*. Though funeral ceremony constitutes the main coverage, *iddir* attempts to meet the economic security needs of poor households such as credit service, coverage for the loss of most essential asset(such as death of draft oxen), and extreme shortages of food. Moreover, some *iddirs* provide forum for organizing social events and recreational facilities, setting up business ventures, community development ventures (such as construction of roads and halls), and for exchanging information concerning common concerns of the members (Dejene, 2003).

As indicated in Table 2, a profile of selected villages reveals the types of insurance coverage and size of contributions as well as the wide range/ forms of membership. For instance, in a certain village, there were only nine persons per *iddir* (See Table 2). Interestingly enough, the nine-person *iddir* signifies a pure insurance arrangement set up by very poor households to cover the death or loss of two vital assets in rural Ethiopia-draft oxen and milking cows, the relative insurance premium for a cow versus an ox being a ratio of 1:2, reflecting the high value attached to draft oxen.

Within a village, it is common to observe a multiplicity of *iddir*s of varying size serving different purposes. For example, in the another village indicated in Table 2 there were six different *iddir*s with membership ranging from 20 to 401 persons.

There are different types of *iddir*s ranging from community-based *iddir*s (most often the largest and the one which focuses on funeral ceremonies) to small-scale *iddir*s such as neighbors, or friends, *iddir*. In Addis Ababa alone, the present author has identified ten different forms of *iddir* (Dejene, 2002). *Iddir*s widely differ in objectives, membership size, compensation of members, size of contribution, and of compensation, and so on.

It is also important to show the distinction between *iddir*s in rural areas and those in urban areas although, according to anecdotal reports, some urban dwellers register as members of rural-based *iddirs*. In rural areas, *iddir*s are often dominated by a single form of scheme (community-based *iddir*) which provides mutual support services (such as financial assistance, material or labour support) mainly, on the occasion of the death of members' family. Written by-laws are not very common; the size of the contributions and collection (compensation) are relatively small; and they rarely have links with the formal sectors (particularly banks). However, in rural areas there are different as well as hybrids forms of *iddir*s (and others meant for mutual support networks) providing with insurance products of different kind (such as oxen *iddir*s, and *iddir*s to cover ceremonial expenses).

In urban areas, too, the forms of *iddir*s are diverse, and are initiated for serving different purposes (insurance, recreation, community development). For example, in Addis Ababa, where there are as many as ten types of *iddir*s, (Dejene, 2002), community-based *iddir*s are registered with the relevant government department from which they receive certificates entitling them to rights of legal personalities. It appears that the number and types of *iddir*s increase with demographic shifts from rural to urban areas. Similarly, it appears that the number of *iddir* per person or per household increase with the degree of urbanization. Also, in urban areas community *iddirs* are often linked to the formal sector (e.g. deposit their funds in banks as compared to *iddirs* in rural areas).

In the case of community-*iddir*s, membership is restricted to household level represented by the head. In both rural and urban areas, women often have separate *iddir*s which cater to their specific needs. For example, the present author as a household head is a member of eight *iddir* all of which are in Addis Ababa, and his wife is a member of three women's *iddir*s and two 'mahibers' (religious association akin to iddir). Membership in some of the *iddir*s (such as "family *iddir*" and "friends' *iddir*"), involve both men and women while others are gender restricted.

*Iddir*s have their own shortcomings including lack of horizontal expansion (perhaps due to increased problems of information asymmetry); seasonality of member income depending on uncertain crop yields; segmented and personalized insurance markets; and limited coverage of risks. There are also procedural constraints (such as the requirement of spending too much time on consoling mourners); and problems of governance (such as lack of transparency and problems of embezzlement). We should also note that *iddirs* may face increasing challenges which could be hard to overcome. In recent decades, rural people have become increasingly uncertain about the occurrences and magnitudes of shocks. This was, in part, due to macroeconomic and institutional instability as well as climate change. The savings and assets of *iddir*s may dwindle resulting from increased payouts paid to a members experiencing death of family member due to HIV/AIDS. Anecdotal evidence indicated that some types of *iddir* in certain areas have already encountered shortages of payouts to cover losses incurred by members. Besides, the prevailing inflationary pressure in the country may undermine the ability of *iddir*s to augment capital and build assets. Moreover, outside interference (for example on the part of NGOs and political cadres) may encroach upon the independence of *iddir*s and thus likely to create division and conflict within as well as among *iddir*s. In particular, government–sponsored attempts to discourage *iddirs*focused on funeral ceremonies (rather than promote *iddir* participation in community development) may undermine the very existence of *iddir*. Also, government's attempt to promote horizontal expansion and networks of several *iddirs* may be received with suspicion and apathy.

Based on the synthesis of the literature (Dejene 1993a; Dejene, 1993b; Dejene, 1999a; Dejene, 2002; Dejene, 2003; Pankhurst, 2003; Viganò *et al.*, 2007) and the participant observation technique, it is possible to make the hypothesis that *iddir* exhibits adequate institutional performance criteria developed by Ostrom (1990; 1990) and Koontz (2003) within the IAD framework. Accordingly, we argue, to some extent, *iddir* is *efficient* (in terms of minimizing the transaction costs of service provisional; *inclusive* (as described above), *accountable* (in the sense that *iddir* officers are subject to the by laws and responsible to the general assembly), *sustainable* (to the extent that it is financially independent and has quite a long life-span) and *adaptable* (in terms of responding to changing environments or circumstance).

Table 2: Profile of Selected Village Iddirs in Ethiopia

Village (and district)	No. of member households (and no of iddirs in the village	Insurance coverage (purpose)	The premium (Size of contribution)
Dinki, Tuglet, North Shewan	9 persons	Death or loss of milking cows or draft oxen	Contribute 2.50 birr each for death of a cow and 5.00 birr & for a draft ox
Yetmen, Gojam	20 to 40 households per *iddir* (6 *iddir*s)	N.A.	1 birr per household per *iddir*
Faggy, near Debre-Berhan, N. Shewa	N.A. (3 *iddir*s)	Funeral ceremony & extreme shortages of food	25 cents per member per month & 20kg of beans per year. But 10kg for female headed households) Women household heads (who are very poor) contributed only 10kg per year)
Imdibir, the Gurage area of the south	Membership size ranged from 100 to 300 persons per *iddir*	Funeral ceremony & other risks. Plus credit at 10% interest rate	Contributions per member ranged from 2 to 3 birr
Koro-Degaga, Dodota, Arsi zone	Membership ranged from 35 to 70 members (4 *iddir*s)	Funeral ceremony; loss of draft oxen; & support in the case of devastating disaster	Contribution ranged from 1 to 2 birr per member per month

Minnitoba, Near Beadle, Ilubabora zone	70 members, most of whom were women	Funeral ceremony and financial difficulties. Plus interest-free credit for members	In addition to regular (monetary) contributions, members contribute free labour for 14 days beginning from the date of burial of a dead family member
Haro, near Bedele, Illubabora zone	123 members	Funeral ceremony and labour shortages	Contribute a total of 20 birr per year, but pay, each time, in small amounts plus contribution of food & fetch water for 2 weeks following funeral; registration fee = 200 birr

Source: (Viganò, 2003; Viganò *et al.*, 2007) and Dejene (2002; 2003).

5. THE INCLUSIVENESS OF IDDIRS AND THEIR POTENTIAL TO COLLABORATE WITH DEVELOPMENT ACTORS

Is there an aspect of inclusiveness or does *iddir* marginalizes the poorest of the poor? A survey of 1,033 farm households in the major coffee-growing areas of Ethiopia (Viganò *et al.*, 2007) showed that, of the very poor households, 71% reported membership of *iddir* as compared to 85% for the rich and 95% for the very rich. Thus, it is very likely that the better off household has more chances of benefiting from the insurance policy provided by *iddir*s than the worse off household. However, there is no evidence suggesting that the very poor are excluded from mutual support networks such as *iddir*. In fact it is not uncommon to hear of cases where the very poor are exempted from requirements of paying to *iddir*, and yet maintain their rights similar to those who regularly contribute. The survey study suggested that the very poor have more chances of receiving payouts from *iddir* than the very rich. During the 12 months preceding the survey, for example, 25% of the very poor received payouts from *iddir* against 14% of the very rich. Gender wise more female farmers received payout from *iddir* than males. In the survey it was reported that 25% of female-headed household had received payout from *iddir* as against 18% for male-headed households.

Further evidence of inclusiveness of *iddir* is indicated in Table 2. In one of the villages indicated in the Table (i.e. Faggy), the poorest of the poor *iddirs* accommodated by lowering the size of the contribution (the premium) to the lowest possible level, a mere 25 cents per member per month. In addition, female-headed households (in many cases, the poorest of the poor) contributed only half of the amount paid by male-headed household (10kg of grain against 20kg for male-headed households). In this connection, we note another striking case of insurance-for-the poor. It was reported that food-insecure households in the village of Faggy has devised an *ex ante* coping mechanism by establishing a grain bank-cum-insurance arrangement.

Development actors often attempt to reach the poor through *iddir*s. However, this venture has remained problematic and challenging. *Iddir*s' relations with outsiders have remained weak and problematic. Relations with the state, which has been extensively reviewed by Pankhurst (2003), may be problematic for *iddir*s. For over half a century, *iddir*s have been clamoring for effective legal protection, non-interference in their affairs, and for support (such as land grant to construct shelters for their meetings and to keep their equipment). Relations with state can be summarized as one of mutual mistrust and suspicion that span decades.

Some NGOs attempt (with limited success) to reach the poor through *iddir*s (See Agedew and Hinrichsen, 2001). NGOs like Accord, for instance, have attempted to use *iddir* as a delivery channel for their various interventions. Similarly, some weather-index-based insurances schemes, which, in some cases use farmers' organizations as a delivery channels (See Hill and Torero, 2009), may attempt to reach the poor through *iddir*. Also government may attempt to intervene in rural areas through *iddir*

One issue that outsiders like NGOs have to consider is how they could involve *iddir* in development efforts without encroaching upon the independence of these nearly-unique institutions. One NGO official (who has wide experience in working with *iddir*s) has the following to say: "[The question is] how best they [*iddirs*] can contribute to development, without forcing a compromise with their social and cultural roles. Such a compromise could be minimized by, first, understanding their functions and their capabilities as well as their limitations" (Desta, 2003).

Outsiders, in particular NGOs, should be cautious in their attempts to reach the poor through *iddir*. Some of the relevant issues they face include: (1) targeting problems due to considerable heterogeneous composition of *iddir* (i.e., the very poor may be marginalized); (2) some leaders of *iddir* may capture benefits coming from outsiders partly due to lack of transparency and accountability; (3) the inability of some *iddir*s to get registered with relevant government department; and (4) limited knowledge, and appreciation of the nature of *iddir*s (on the part of NGOs and government).

One area is which *iddirs* may forge collaboration with development actors is the provision of *iddir*-based health care. As early as the 1980s, there was an attempt to link community *iddir*s to the Ethiopian Insurance Corporation. But, the scheme phased out after some progress in registering a few collaborating *iddir*s around Addis Ababa. Regarding the provision of iddir-based health care, studies suggest the prevalence of strong willingness to pay by *iddir* (Dejene, 1993a; 2002). *Iddir* may have potentials to link with the formal sector, but there challenges need to be tackled (Yemisrach, 2002).

6. DISCUSSION OF THE LOGIC OF IDDIR: PRINCIPLES AND RULES OF THE GAME

In what follows, we will attempt to analyze the nature and logic of *iddir* using basic criteria drawn from Brown and Churchill (2000) and the IDA framework.

The major features of *iddirs*, demonstrate that they fall in line with most of the *basic principles* of an insurance arrangement as contended below:

- The principle of large number of members is met by some forms of *iddirs* (such as community-*iddirs* and work-mates *iddirs*) which often enlist hundreds of members.
- Because of information asymmetry, no member is able to have control of the insured event. For example, no member can easily succeed in letting his draft ox die and claim compensation from his/her *iddir*.
- All members of an *iddir* have insurable interests. Of all the idiosyncratic risks that they often face, members opt to mitigate the impacts of the most serious risks, such as due to the death of family member, death of a draft ox or a milking cow, illness of a member, and so on. Obviously, the policy-holders (members) do not and should not have vested interests in causing the death of an ox, an indispensable asset, or in inflicting illness on themselves.
- The officials of *iddirs* can easily ascertain that a claimant has suffered a loss of life or property. As the amount of compensation (the insurance policy) is predetermined (or fixed by the by-laws *iddir*), there is no need to measure the extent of loss suffered by the policy-holder (the claimant). Therefore, *iddir* officers do not have problem with the principle that states: 'losses should be determinable and measurable'.
- *Iddir*s insure only losses which are not catastrophic. That is, let alone insuring covariant (common) risks, *iddir*s insure only against a limited number of idiosyncratic risks (see Yemisrach, 2002; Viganò, 2003, for details).
- Thanks to access to time-tested indigenous knowledge systems, those members who craft the by-laws of *iddir* need not bother calculating the chances (probabilities) of losses that might be incurred by members. Through centuries of trial and error, rural people have been subjectively

able to determine the size of expected losses and probabilities of losses occurring over a period.

- Finally, the principle that the *premium should be economically affordable* is relevant to all types of *iddir*. In determining the size of the premium (contributions), the general assembly takes into account the amount that is affordable by the poorest members. The premium reflects the lowest common denominator (the minimum that the poorer members can afford).

As indicated in Table 3, the rules of *iddir* agree with the seven cardinal *rules* identified in the IAD framework (See Table 3). For example, the written by-laws of *iddir*s unambiguously specify position rules, boundary rules and authority rules. No doubt, *iddir*s are formalized to the extent that their rules and procedures are concerned, The by laws of *iddir* determine the rights and duties of members and officers: fix the size of the premium and the compensation, control problems of moral hazards and adverse selection and establish a mechanism to maintain transparency and accountability on the part of elected officials.

Table 3: Assessing the Rules of Iddir Using the IAD Framework

Rules	**Definition/Main Feature**	**Illustrations from *Iddirs***
Position rules	Specify a set of positions and how many participants are to hold each position.	The written by-laws of *iddir* clearly identify and describe the number and positions of officers of the group.
Boundary rules	Specify how participants enter or leave their assigned positions.	The written by-laws of *iddirs* specify terms and conditions for accepting new members and define the tenure and mechanisms for the replacement of officers.
Authority rules	Specify which set of actions is assigned to which position at each node of decision.	The written by-laws of *iddir* have provisions pertaining to any violations of the agreed rules (e.g. penalties are imposed on those members who fail to pay the premium on time).
Aggregation rules	Specify the transformation function to be used at a particular node, to map actions into intermediate or final outcomes.	Voting at the general assembly of *iddirs* is based on the principle of "one man one vote" and majority role.
Scope rules	Specify the set of outcomes that may be affected, including whether outcomes are intermediate or final.	*Iddirs* often raise the size of the contributions whenever the pool dwindles and approaches a minimum level (a threshold).

Information rules	Specify the information available to each position at a decision node.	Audit reports are read to the general assembly before the tenures of officers terminate.
Payoff rules	Specify how benefits and costs are permitted or forbidden in relation to actors based on the full set of actions taken and outcomes reached.	The by-laws of *iddir* identify and define the rights and duties of members.

Note: the Institutional Analysis and Development framework (IAD) framework is defined in (Ostrom, 1990; Koontz, 2003).

7. CONCLUSION

From the forgoing one can conclude that *iddir* is an indigenous social security arrangement that has little similarity with the funeral associations that are found in other African countries. Although it suffers from some limitations, *iddir* functions on the basis of the basic principles of informal insurance arrangements in low income communities. As an institution, driven by the collective action theory of its members, *iddir* operates subject to flexible rules as enshrined in the by-laws. The by-laws are largely in line with those recognized in the literatures dealing with the collective action. Moreover, the performance of *iddir* can be considered as satisfactory in terms of efficiency, equity, accountability, sustainability, and adaptability.

However, *iddir* has its own limitations (such as coverage of only a port of individual risks; inability to cover common risks; and limited capacity to expand horizontally). This implies that *iddir* is there to complement financial services provided to rural people by other actors. But, while intervening in rural areas, development actors should be careful not to interfere with the time-tested rules and operations of *iddir*. Actors should respect the independence of *iddirs* and should try to understand their nature and logic before attempting to work with them.

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Résumé

En l'absence de services d'assurance formelle, les petits agriculteurs sont dépourvus de moyens efficaces de gérer les risques qu'ils rencontrent dans leur vie quotidienne. Un mécanisme d'intervention commun des ménages ruraux est l'arrangement d'action collective basé sur le réseau, guidé par la réciprocité et l'altruisme. Les institutions financières indigènes constituent un exemple frappant du système de risk-pooling et risk-sharing largement pratiqué par la majorité des communautés rurales en Afrique. Parmi ces dispositions, les iddir éthiopiens peuvent être considérés comme une institution unique et viable et il vaut la peine d'en comprendre la nature et la logique.

S'appuyant sur la synthèse de la littérature et des enquêtes auprès des ménages disponibles, cette étude vise à expliquer l'essence et le dynamisme de l'iddir; décrire ses mécanismes de risk-pooling et risk-sharing; analyser les principes et les règles qui sont à la base de ses procédures et ses opérations. On évalue aussi ses règles en utilisant un cadre analytique connu sous le nom d'"institutional analysis and development framework".

Cette étude peut contribuer au débat sur la logique et le potentiel des institutions informelles pour répondre, partiellement, aux besoins d'assurances des petits agriculteurs. Il est important de comprendre et de promouvoir les mécanismes par lesquels les arrangements autochtones tentent de combler le vide laissé par le secteur formel.