

# THE IDDIR: A STUDY OF AN INDIGENOUS INFORMAL FINANCIAL INSTITUTION IN ETHIOPIA\*

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## 1. Introduction

The great bulk of the Ethiopian population, including the majority of urban dwellers, makes little use of the few formal financial intermediaries. These institutions which, are transplanted from industrial countries, seem largely inappropriate to Ethiopian realities. Their high costs of transaction, complex bureaucratic procedures of giving services, elaborate paper work, high collateral requirements, delays, etc. are among some of the factors that militate against an effective utilization of the existing insurance and banking facilities. On the other hand, the informal financial sector, as shown by studies undertaken in developing countries (e.g. Bouman 1977, Chandavarkar 1985, Miracle et. al. 1980), has certain advantages over the formal sector. In the former case, the average scale of operation and the cost of rendering financial service is small; procedures are flexible; there is in general freedom of entry and exit; there is freedom from *de jure* and *de facto* control by central authorities; information gathering is kept to the minimum and, instead, trust and first hand knowledge of a participant is important (see Bouman and Houtman 1988: (69-70).

The *iddir* is an informal financial and social institution that has so far remained the preserve of anthropologists and sociologists as will be seen below. It is only Mauri (1987) that considered the economic aspects of the *iddir*. Moreover, most of the literature on the *iddir* deals with conditions before the creeping coup d'état of 1974. Recent years saw, *inter alia*, everdeepening economic and social insecurity in the country and the need to appreciate common heritage fostering national identity. The *iddir* becomes more important and increasingly complex as the growing urban population face economic and social difficulties.

The general purpose of this paper is to highlight the socio-economic importance of the *iddir* using empirical information. The study focuses on the characterization of its nature and structure, identification of its recently emerging features, explanation of its relations with the formal financial sector, and the characterization of the socio-economic status of participating households.

Two basic approaches are followed in generating the data required for this study. First, the *iddir* is studied as an institution. For this purpose, questionnaires were prepared

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and given to leaders of 32 *iddirs* in Addis Ababa. In addition, the Ethiopian Teachers' Association *iddir* and the Addis Ababa University Employees' *iddir* were also studied. Moreover, interviews were conducted and documents investigated. A similar procedure was followed regarding the study of an *iddir* in a village in Northern Shewa. Second, a household survey was undertaken to study the characteristics and opinions of participants. In addition, the participant observation method was used to generate additional information. Interestingly, the present writer is a member of seven different *iddirs* paying a minimum of Birr 44 per month.

The household survey covered 162 employees (6.3 per cent of total employees working in Addis Ababa) of Addis Ababa University with a focus on the Sidist Kilo campus where 66 per cent of the total employees is found. The sampled employees were almost proportionately selected from both academic and administrative staff of the University. The latter comprised professional science, administration, trade and crafts, custodial and manual, and clerical and financial. Questionnaires were either directly distributed by the researchers or by volunteers among all employees willing to cooperate. Almost 99 per cent of those approached were willing to cooperate. Addis Ababa University has been selected as a case because here there are all types of workers and professionals right from labourers to professionals and high level officials. Besides, accessibility and cost factors can also be mentioned as possible reasons for sample selection.

The survey data were analyzed by classifying the sample employees into three income groups, viz, (1) low income, (2) medium income, and (3) high income groups. These categories were identified by using a simple technique. The reported incomes were first listed in an ascending order and then divided into three equal parts. The bottom class constituted the low income group, the middle constituted the medium income group and the top class constituted the high income group.

The study was undertaken between November 1990 and April 1991.

The rest of the paper is organized as follows. The second section reviews the literature on the *iddir* with a focus on its nature, origins, functions, procedure and organization. The third section presents the findings of the surveys undertaken by the author. The last section presents a brief discussion and conclusions. These conclusions are, however, subject to the limitations of the data base. Definitive conclusions can be made only on the basis of further research.

## **2. Review of the Literature: the Nature, Origins and Functions of the Iddir**

The best definition of the *iddir* is that of Mauri (1987: 6-7). Iddir is defined as

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"An 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 programme run by a community or a group to meet emergency situations".

According to Salole (1986) the original purpose of the *iddir*, an institution indigenous to Ethiopia, was the burial of the dead. Today, the *iddir* provides much wider range of services including financial and material assistance and consolations to a member in the event of difficulties as well as entertainment as the case may be.

Probably the *iddir* is the oldest and the most widely diffused of the "modern" associations in Ethiopia (Levine 1972:277). The origins of the *iddir*, has been traced to the Gurage people and the period of the Italian Occupation (1936-1941). According to Levine, "the *iddir* is said to have originated among the Gurage and to have become more widely adopted during the Italian invasion, when many people were killed and had no relatives to bury them" (Levine 1972:277). Of all types of *iddir*, the oldest one is perhaps the community (territorial) *iddir*. However, it should be stressed that the expansion of the *iddir* has been influenced by the growth of urban centres during this century, (e.g. see Mekuria Bulcha 1973, Fekadu Gedamu 1974). Salole (1986), for example, noted that "One of the most significant survival strategies or coping mechanisms adopted by Ethiopian urban populations is recourse to *iddirs* and *iqqubs*". For example, it has been observed that in Addis Ababa, the *iddir* has been growing at fast rate. It has been estimated that at least, over a half of Addis Ababa households are members of *iddir* in 1986 (Salole 1986, Fekadu Gedamu, 1974). Estimated numbers of *iddirs* in Addis Ababa were: 395 in 1969, 600 in 1973 and 1213 in 1983 (Mekuria Bulcha 1973, Landuber Araya 1983: 75). The case of one *iddir* is more illuminating; it was established by three elders in 1948 with contributions per member amounting to 10 cents per month. Six months later, contributions were raised to 25 cents and payments to survivors of a deceased member were fixed at 50 Birr. By 1973 contributions were raised to 1 Birr and assistance to families of a deceased member to 150 Birr (Aleme Feyissa: 1973).

The origins of the *iddir* in Addis Ababa have been traced to ethnic affiliation. According to Fekadu Gedamu (1974:73), the *iddir* first appeared in Addis Ababa as an ethnic-based voluntary association among migrants who came from different backgrounds. However, sooner the *iddir* cross-cut ethnic divisions and thereby functioned as an instrument for national integration contrary to the argument of many scholars that the major function of urban-based voluntary association in Africa has been cohesion and articulation of

has its own versions of by-laws and book-keeping system and no attempt has so far been made to systematize them. The central government was interested in the *iddir* because of its political overtones (Fekadu Gedamu 1974: 74), and not because of its potential for mobilizing resources for development.

### 3. The Results of Empirical Studies

A Survey of a sample 32 *iddirs* in Addis Ababa was undertaken in order to examine the structure of the *iddir* and its linkages with banking system (See Table 1). Various types of *iddir* are identified and characterized.

Table 1  
THE STRUCTURE OF IDDIR IN ADDIS ABABA

Variables	Community (Territorial) iddir	Work-place Occupational Iddir	Friends' iddirs	Family iddirs	Average
Sample size	14	6	6	6	—
Av. age of the iddir (year)	26.5	15.2	10	6.2	241.3
Av. No. of members	291	655.2	3.8	15	246.3
Av. Contributions per member (Birr month)	3.20	3.30	5.00	6.80	4.6
Av. Financial assistance to family members of the deceased (Birr)	623.2	2128.3	520	290	890.4
Av. Registration fee (Birr)	102.9	77.4	42.50	68.8	72.9
Av. Size of bank deposit (Birr)	13,847.9	33,550.7	2955.5	2310	13166.03
Av. Size of cash at hand (Birr)	1229.2	1,230.4	340	236	758.9
Av. Size of total financial assets (Birr)	14,901.5	35,618.41	3369.2	3562.7	14363
Total financial assets per member (Birr)	51.2	54.4	169.9	285	140.1
Bank deposits as per cent of total financial assets	92.9	94.2	87.7	64.8	84.9
Per cent of iddir participating in development efforts	69.2	50	25	0	36.1

It has been observed that community (territorial) *iddirs* are the oldest types of *iddir*. The average age of the sample community *iddirs* was 26 years. Of the sample community *iddirs*, the oldest one was established in 1941 immediately following the end of the Italian occupation of Ethiopia. This *iddir* initiated operations with 40 to 50 members contributing

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10 cents each every month. Presently, this *iddir* consists of 305 members contributing 3 Birr each per month. Next to the community *iddir*, work-place (occupational) *iddir* are the oldest ones. The average age of the sample is 15 years.

On the other hand, friends' *iddir* and family *iddir*, which are growing at a fast rate<sup>5</sup>, are of recent origins. From the sample, the former averaged 10 years and the latter 6 years.

The average number of members for the sample *iddirs* is 246. Work-place *iddirs*, followed by community *iddirs*, are the largest in terms of membership. Work-place *iddirs*, with bank deposit averaging 33,551 Birr, are also the largest in terms of total financial assets. Friends' *iddirs* and family *iddirs* are of small size. However, they have the highest contributions per member and they also have the largest bank deposit per member. Financial assistance to family members of the deceased member, averaging 890 Birr, is highest in work-place *iddirs*. Registration fees for all types of *iddir* averaged 73 Birr per new member. Bank deposits, which averaged 108 Birr per member, are highest in family *iddirs*. Bank deposits, as proportions of the total financial assets, averaged 85 per cent. The ratio for the community and work-place *iddirs* is more than 90 per cent. Cash at hand, averaging 759 Birr per *iddir*, is maintained only for emergency purposes. No doubt, *iddirs* keep a large portion of their funds in the banks.

All types of *iddir*, except family *iddirs*, participate in development scheme to varying degrees. The big *iddirs*, in particular, are involved in community development programmes such as construction of roads, installation of public utilities, etc. The big *iddirs* (community and work-place *iddirs*) have their own tents, chairs, benches, utensils, etc.

Participants are characterized on the basis of the results of a survey of a sampled employees of Addis Ababa University (see Table 2). As high as 90 per cent of the sample employees (n = 162) have not bought insurance policies. The proportion of sample employees having bought insurance policies, which averaged 10 per cent, systematically increased from 3.7 in the low income group to 16.7 per cent in the high income group. Insurance policy is invariably limited to those employees who built their own houses with money borrowed from the Housing and Saving Bank. It is this bank's policy that a borrower should buy life insurance policy as a pre-condition to receive the requested loans.

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5 Such a fast rate of growth can perhaps be attributable to the growing financial insecurity in the urban areas resulting from a steady rise in the cost of living and ever-worsening social problems.



Table 2

## PARTICIPATION IN THE IDDIR BY SAMPLE EMPLOYEES OF ADDIS ABABA UNIVERSITY

Variables	Low income	Medium income	High income	Average
Proportion of the sample belonging to iddir (%)	83.3	83.3	81.5	82.7
Proportion of the sample having insurance policies (%)	3.7	9.3	16.7	10.0
The mean year for joining iddir	1979	1980	1981	1980
Av. number of iddir per sample employee	2.2	2.2	2.3	2.2
Av. number of iddir per household	3.6	4.1	4.1	4.0
Av. contributions to iddir per sample employee (Birr per month)	6.2	8.6	8.4	7.7
Av. Contributions to iddir per household (Birr per month)	10.3	15.7	15.4	13.8

The responses to the question, "Why do you join *iddir*?" are almost the same across the sample employees. *Iddir* entitles a person in difficulties to financial and material assistance and to consolation from members. Compared to the insurance system, *iddir* is considered as a non-profit-making institution catering to the specific needs of a person. The respondents have also mentioned the social and cultural aspects of the *iddir*. *Iddir* provides a wider range of services than the insurance system. It is also culture-appropriate.

The survey results suggest that, for many of the sample employees, *iddir* is of a recent origin. Many of them joined *iddir* for the first time some 11 years ago. This can partially be attributable to the young age of most of the sampled employees. It has been observed that those in the higher income group joined *iddir* later than those in the lower income group.

The results revealed that a person is a member of more than one *iddir*. The average number of *iddir* per person is 2.2 and the average per household is as high as 4 *iddirs*. Women have their own separate *iddirs* in addition to those they have in common with other family members. Contributions to *iddir* per person and per household average 7.7 and 13.8 Birr respectively, per month. It has also been observed that contributions

to *iddir* increase with income. Better off households are capable of diversifying their portfolios.

It has been observed that the most common type of *iddir*, invariably for all income groups, is work-place *iddir* followed by community *iddir*.

In what follows, we will attempt to illustrate the structure of three different types of *iddir*. These are: (1) The Addis Ababa University Employees *Iddir* (AAUEI), (2) The Ethiopian Teachers' Association *Iddir* (ETAI), and (3) a village *iddir*.

The AAUEI, with a total capital amounting to 353,000 Birr and 1900 members, is perhaps the largest work-place *iddir* in the country. Established as early as 1961, it is also one of the oldest work-place *iddir*. Of its total capital, 250,000 Birr is in the form of equipment and durables (AAU 1990). It has a busy lounge providing services to the University Community.

There are 24 persons working in the lounge. Their total monthly salaries, amount to 2,400 Birr. Its income from the lounge is considerable. For example, during the month of May 1990, its gross income from the lounge amounted to 23,649 Birr.<sup>6</sup> This *iddir* has two vehicles (one of which is a hearse), 2 tents, a number of utensils, chairs, bar equipment, etc. Monthly contributions, for most of the times, are 3 Birr per member. The registration fee for a new member is 150 Birr.

The Ethiopian Teachers' Association *Iddir* (ETAI) is a special type of *Iddir*. Membership is restricted to members of the Ethiopian Teachers' Association. It is perhaps the only *iddir* organized at the national level. The ETAI, with capital amounting to 3.6 million Birr and 45,078 members (50% of the total number of teachers in the country), is the largest *iddir* in the country. It is within 6 years that it grew to such a giant size. Monthly contributions are 5 Birr per member. Almost all of its capital is deposited in the banks. Cash at hand is very small. For example, petty cash kept at the national office is a mere 500 Birr. If it is able to enlist the remaining 50 per cent of the teachers, it may be transformed into a sort of a medium size insurance enterprise. Some of the problems it has encountered include: (1) the inability of the branch offices to transfer the legally required funds to national office on time, (2) shortage of personnel required to do the

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6 In the same month contributions collected from *iddir* members amounted to 6,021 Birr. The total expenses in the same month amounted to 32,821.60 Birr (including purchase of durables, salary and others = 28,691.60 and payments to beneficiaries from *iddir* fund = 4,130.00). Income from the lounge falls during summer vacations. In July 1990, for example, it was 15,690 Birr. The total expenses in the same month amounted to 21,489 Birr.

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book-keeping and properly administer funds, and make timely reports, and (3) members' repeated requests for benefits not provided by the by-law, eg. advance payments for medical examination and transport, benefits to family members, and requests for per-diem in cases where a beneficiary travels to a place in accordance with the physician's recommendations. The ETAI, unlike other *iddirs*, does not provide assistance to the family of a member.

*Iddirs* are not limited to urban areas only. They are also found in rural areas. Here is the case of a village *iddir* in North Shewa. This *iddir* was established in Sina-Debre-Sina Village in 1957. During its initial period, contributions per member amounted to 10 cents per month. Today, there are 125 members (households) contributing 25 cents each per month. Since there are no banks even in the nearest towns, this *iddir* keeps its collections with the treasurer. Assistance given to the family members of a deceased member amounts to 30 Birr. The written by-law of this *iddir* is simple and short; it has 3 articles only.<sup>7</sup>

#### 4. A Summary and Conclusions

The *iddir* is perhaps the most egalitarian and democratic grass-roots level institution in Ethiopia. It cuts across ethnic, religious and occupational boundaries. Thus, it has great potential for the social and political development of the country.

The study suggests that the *iddir*, unlike the insurance system, is very popular among the people. It is attractive to the people because it is culture-appropriate, flexible, easily accessible and cost-effective. Unlike the insurance system, it is a non-profit-making institution based upon solidarity, friendship and mutual assistance among members. People from all walks of life participate in the *iddir*. The insurance system, on the other hand, is limited to high households seeking insurance policies for a definite purpose such as ensuring private houses or cars.

The *iddir* has virtually no linkage with the insurance system. The Insurance Corporation has failed to attract *iddirs* into its recent scheme which proposed a sort of insurance policies to cover members of *iddirs*. Not more than 70 *iddirs* have so far bought insurance

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7 In the urban areas the by-laws of *iddirs* are sophisticated. One *iddir*, for example, has a by-law consisting of 23 articles and 16 pages.



policies. On the other hand, *iddirs* invariably have strong linkage with the banking system. *Iddirs* keep the bulk of their financial assets in the banks. Only petty cash is kept at hand to meet emergency requirements. The sample *iddirs*, on average, deposited in the banks 85 per cent of their financial assets. Bank deposits per member amounted to 108 Birr. This sum is somewhat greater than the per-head bank deposit which amounted to 90 Birr for the whole population.

The study also suggests that in recent years more and more people are participating in *iddir*. New types of *iddirs* are increasingly becoming popular among urban dwellers. Bank deposits per member are higher in the newly-emerging types of *iddirs*.

The *iddir* had emerged in the country almost concurrently with the formal sector "as a vast unconscious process of arousing and coordinating energies to meet the novel realities of Ethiopia's current historical situation" (Levine 1972: 281). The modern self-help associations in Ethiopia can be seen as coping mechanisms developed over time in response to the growing demand for financial and social security by people already uprooted from the village-level communal life but still living within a "penny economy". In a society where monetary relations have not yet sufficiently developed, culture-appropriate financial institutions will remain indispensable. People who might not qualify for bank loans or insurance policies resort to the *iddir*. Interestingly enough, even those who do qualify for these facilities still use the *iddir* due to the additional benefits they get from these institutions. Social solidarity and friendship are among such benefits. Moreover, the informal sector appears to have better access to information about the credit worthiness of a participant than the formal sector.

The informal sector in Ethiopia has evolved, through trial and error and without government assistance, into a complex and well-organized financial institution capable of developing self-adjusting mechanisms in the face of changing circumstances. The resilience and apparent expansions of the informal sector, however, should perhaps not be ascribed to the growth in the economy but rather to the ever-growing economic and social difficulties prevailing in the country.

With appropriate government policies it may be possible to gradually transform existing "traditional" financial institutions into modern ones. The Ethiopian Teachers' Association's *iddir* is already attaining the status of a medium-size insurance enterprise.

The realization of the potentials of existing informal financial institutions depends, to a great extent, on the degree of appropriateness and effectiveness of government

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policies. Existing policy constraints need to be removed. More government support should be given to the *iddir*. The *iddir* needs legal protection from embezzlement and mismanagement by swindlers. The by-laws and book-keeping systems of these institutions should be updated and systematized.

This paper has attempted to throw some light on the efficiency and dynamism of a component of Ethiopia's hidden economy, the informal financial sector. Policy-makers should create the enabling environment towards the realization rather than stifling of the energies and creativities of people participating in this indigenous and culture-appropriate financial institution. It is high time that researchers more closely investigate the potentials of the *iddir* and the problems it often encounters.

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## Abstract

*In societies where modern financial intermediaries are underdeveloped, indigenous institutions remain indispensable. Such institutions can be considered as national resources capable of evolving into modern financial institutions appropriate to the particular socio-economic and historical backgrounds of a country.*

*This study highlights the socio-economic importance of the iddir, an indigenous informal insurance scheme popular among urban-dwellers in Ethiopia. Using empirical evidence from surveys undertaken in Addis Ababa, the study examines the linkages between the iddir and the formal financial sector, characterizes the socio-economic status of participating households, and explains the structure of the iddir.*

*The study has made contributions to the literature by undertaking an economic analysis of areas so far neglected by researchers. The major reasons why people prefer the iddir to the modern insurance schemes are investigated. It has been shown that the iddir has strong linkage with the commercial banking system rather than with the insurance enterprises. The place of the iddir in the financial flows system in Ethiopia has been schematically presented. The study has suggested that, in recent years, the popularity of the iddir among people from all walks of life has been growing. New types of iddir are emerging in Addis Ababa, perhaps, in response to the ever-growing social and economic insecurity in the country.*

*The study suggests that policy-makers should create the enabling environment towards the realization of the great potentials of the iddir. Researchers have to explore more closely the yet untapped potentials of this culture-appropriate institution endemic to Ethiopia.*