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EXTENDING INSURANCE?
FUNERAL ASSOCIATIONS IN ETHIOPIA AND TANZANIA

By Stefan Dercon, Tessa Bold, Joachim De Weerdt and Alula Pankhurst

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PREFACE

Social exclusion in all countries is to a large extent determined by traditional societal conventions and institutions. These institutions can interfere with the emergence of new social and economic opportunities despite a changing international environment, increased market integration, growing competition and more inter-cultural exchanges. It is against this background that the OECD Development Centre set out to analyse the development impacts of local institutions in developing countries.

This paper looks at how local communities in Tanzania and Ethiopia use indigenous voluntary assurance schemes to cope with the urgent and large financial shocks represented by funerals. It further explores the possibilities for widening these schemes into other sectors. The authors find that in both settings, and contrary to findings in other fields, these local institutions are quite inclusive and include the chronic poor as well as the relatively well-off members of the community. Policy makers in both countries, however, have largely overlooked these independent initiatives. Given their potential, this may have been a mistake. Though these small-scale institutions share a number of limitations that are recognised and acknowledged in this study, several interesting entry points exist for developing a basis for a social protection scheme out of these initiatives. As a bonus, adopting such an approach would suggest a policy that recognised local ownership and partnership, rather than state-imposed schemes.

The current "pro-poor growth" debate seeks to identify the elements of growth mechanisms that can have a positive impact on poverty. The findings of this study confirm the importance in poor countries of one of those elements: effective risk-management institutions at the local level. Institutional innovations in this area could help poor people to undertake riskier but also more profitable activities thus, potentially, freeing them from a cycle of dependency and immobilism. Handled the right way, the inclusion of these so-called "traditional" institutions could contribute to paving the way for sustainable poverty reduction and development. This lesson applies to any countries and situation where these types of institution exist.

Prof. Louka T. Katseli
Director
OECD Development Centre
17 December 2004

RÉSUMÉ

A partir de données recueillies dans des zones rurales d'Éthiopie et de Tanzanie, ce document s'intéresse aux organismes locaux d'assurance qui ont fait leur apparition pour aider les familles à assumer les frais d'obsèques, souvent très lourds. Reposant sur une réglementation bien établie, la plupart d'entre eux coexistent au sein d'une même communauté. Ils proposent souvent une assurance « frais d'obsèques » fondée sur les primes ainsi que, dans de nombreux cas, d'autres produits d'assurance et de crédit permettant de faire face à d'éventuels revers. Les caractéristiques et l'ouverture totale de ces établissements en font des modèles intéressants pour la mise en place, dans ces communautés, d'autres services d'assurance ou d'autres activités de développement. En Éthiopie, leur utilisation a donné lieu à plusieurs expériences prometteuses dont ce document rend compte. Pour autant, les pressions exercées aujourd'hui par l'épidémie de sida et l'apparente réticence de ces établissements à coopérer plus avant avec des ONG ou des organismes gouvernementaux témoignent de leur fragilité institutionnelle. Dès lors, la plus grande prudence s'impose avant d'envisager un quelconque développement de leurs activités.

SUMMARY

This paper studies the development of indigenous insurance institutions set up to help cover the high costs of funerals, using evidence from rural areas in Tanzania and Ethiopia. Many of these institutions tend to co-exist within the same community and are based on well-defined rules and regulations, often offering premium-based insurance for funeral expenses, as well as, in many cases, other forms of insurance and credit to help address hardship. The paper argues that the characteristics and inclusiveness of these institutions make them well placed as models to broaden insurance provision and other development activities in these communities. In Ethiopia, there is some encouraging experience with using these institutions, as reviewed in this paper. However, the paper argues that their fragility as institutions is well illustrated by current pressures related to HIV/AIDS, as well as by their apparent resistance to engage more broadly with NGOs and government agencies. As a result, any attempt to broaden their activities will have to be made cautiously.

I. INTRODUCTION[1]

Funeral associations in Ethiopia and Tanzania have gradually evolved into well-structured indigenous organisations, offering insurance to help cover funeral expenses. This paper discusses their functioning, the extent of insurance offered and the scope for building on these institutions in order to offer broader insurance coverage. It describes the history and functioning of these institutions, based on a survey in rural Tanzania and Ethiopia. Furthermore, it assesses their role within these communities, focusing on the insurance coverage they can offer as well as the extent to which the less well-off may benefit. Finally, it assesses whether they could be "scaled up" via interventions by NGOs or the state, to offer broader insurance coverage against other risks. Not only does it provide some evidence of the extent to which development activities are successfully being provided via these institutions, but also of the current pressures posed on these institutions by HIV/AIDS. It concludes with a number of policy conclusions.

Households in developing countries face considerable risk. In recent years, many studies have analysed both the extent of risk experienced and the responses to risk in developing countries (for reviews, see Morduch, 1995; Townsend, 1995; and Dercon, 2002). One key response is that households should try to reduce the consequences of the risk in their income by a variety of risk-coping mechanisms, including engaging in forms of risk-sharing via informal arrangements.

One common trait of the economic literature on risk-sharing arrangements, including key empirical papers (such as Townsend, 1994; Grimard, 1997; Ligon *et al*., 2002) as well as theoretical papers (including Coate and Ravallion, 1993; Genicot and Ray, 2003) is that all these papers focus on "informal" risk-sharing arrangements, which should be understood not only in the sense that they were taking place outside the market place but also that they were "informal" in that they were not based on well-defined "formal" associations, with formally defined, written sets of rules or regulations governing their operation. These institutions are sustained over time on the basis of implicit rules enforced by social norms, so that, once joined, no-one is tempted to defect later when they realise that their own contribution is outweighing their personal and social benefits. However, much recent theoretical literature has shown that norms, or other rules-based enforcement mechanisms, are not necessary for these arrangements to be sustained. In other words, incentive systems within the arrangements can be designed to make the contracts *ex post* self-enforcing.

1. Stefan Dercon and Tessa Bold, University of Oxford, United Kingdom; Joachim De Weerdt, Research Director, Economic Development Initiatives, Tanzania, and C. University of Leuven, Belgium; and Alula Pankhurst, Department of Sociology and Social Anthropology, Addis Ababa University, Ethiopia.

In empirical applications, investigations on risk-sharing arrangements have largely focused on "informal" arrangements between households and individuals based on concepts such as the extended family, neighbours or village-wide networks, but not on well-defined networks or associations formed with a specific focus on insurance. There is some work that considers linkages between individuals and households that identify specific people as their insurance partners (Fafchamps and Lund, 2003; Ayalew, 2003; Dercon and De Weerdt, 2002). Even so, these contributions do not focus on groups or associations — but largely on bilateral arrangements with a risk-pooling purpose.

This paper goes beyond this analysis by discussing insurance *groups*; indigenous associations common in developing countries with a specific focus on insurance and with well-defined rules and obligations, in the form of membership rules, specific contributions and fines related to deviant behaviour. In particular, it discusses funeral societies in Ethiopia and Tanzania, based on a unique data set on the functioning of these groups, with matching household level data on the members.

There is a considerable amount of literature on groups and associations in developing countries and their economic impact. However, most of its focus is on their role as "social capital"[2]. The purpose or functioning of these groups is less relevant in this literature. Other literature focuses on development initiatives using community-based organisations. One strand is related to health insurance, since many initiatives have developed around voluntary but community-based health insurance (CBHI) schemes (Jutting, 2003; Atim, 1998). Although some of the issues involved are comparable to those related to indigenous insurance groups, a key difference is that CBHI schemes tend to develop with clear linkages to NGOs or specific health facilities.

Discussion on funeral associations in existing literature is very limited at present. In the Ethiopian context, Aredo (1993, 1998) has discussed these organisations in some detail from an economic point of view. This study is different in that it is directly based on survey data on the functioning and membership of these institutions in a rural setting. There is a limited amount of sociological and anthropological literature on these institutions as well (for example, Pankhurst, 2003). In the Tanzanian context, there appears to be no analysis of these institutions. More generally, Rutherford (2001) has documented the existence of insurance mechanisms for funerals across the developing world. Still, no systematic economic analysis of these institutions can be found in the literature. Although the present analysis is largely economic, it is also informed by anthropological work focusing on the historical context and evolution of the particular format of the institutions.

There are some obvious reasons why this paper has focused on funeral insurance. Firstly, funeral expenditure in much of the developing world is usually large and tends to represent a large proportion of households' monthly income. Roth (1999) suggests that the poor in South

2. Using Putnam *et al*. (1993), social capital can be defined as referring to features of social organisation, such as trust, norms and networks that can improve the efficiency of society. In particular, the focus is on the external effects of community relations on outcomes of interpersonal interactions: "strong" social capital tends then to be associated with economic success.

Africa will spend approximately 15 times their average monthly income on funerals. Our own surveys also suggest substantial figures for Ethiopia and Tanzania. Rutherford (2001) finds that funeral insurance is one of the most sought-after products offered by more formalised microfinance institutions. Secondly, it is also a highly insurable event in these settings. Moral hazard is unlikely to be relevant for insuring a funeral whereas, given relatively high mortality, it is a common event in families, but still typically with relatively low covariance.

The next section will present the basic characteristics of these groups based on unique survey data in both countries. The insurance cover provided and the basic functioning and history of these groups will be discussed. Section III briefly tackles the economic rationale of the observed functioning of the groups, suggesting that they may well provide a successful recipe combining the advantages of "informal" insurance relationships, championed in the informal risk-sharing literature, with workable solutions for stability and sustainability as an institution providing effective cover against a number of risks, most notably funeral risk. Section IV will discuss an analysis of the characteristics of members of these groups and the issue of who is a member of these groups. A key finding is that these groups appear remarkably inclusive and that, contrary to informal arrangements of mutual support, different socio-economic groups tend to be members of the same groups. In any case, in both contexts there are relatively substantial groups that appear to be well-organised and structured, with clearly defined rules and regulations, and experienced in handling financial and organisational matters. This may make them suitable for other developmental activities, and possibly for scaling them up in terms of activities. Section V discusses the possibility of scaling up. Section VI focuses on the impact of HIV/AIDS on these institutions, while section VII discusses the main conclusions and policy implications.

II. HISTORY AND CHARACTERISTICS

Most economic research has tended to view informal arrangements as "traditional" responses in the context of limited market penetration. In many ways, the funeral associations are neither informal nor traditional. The emergence of these particular institutions is a relatively recent development. In Ethiopia, they are likely to have evolved from migrant support organisations, and started spreading rapidly after the Italian occupation. In Tanzania, they evolved as defiantly independent institutions after a period of attempted capture by the state during the Nyerere presidency in the 1980s. In both cases, their recent history suggests a consistent reformulation in response to changes in market penetration and in the political context. In a brief Annex 1, the evidence on their historical evolution is summarised. In both contexts, they definitely evolved as "indigenous" institutions, in the sense that they were *not* set up by outside interventions, such as by the state, local political organisations, NGOs, missionary activities or service facilities, such as hospitals.

The data for the analysis comes from two rural contexts. First, there are data from a number of communities in rural Ethiopia, studied as part of the Ethiopian Rural Household Survey. This survey has been collecting panel data on households and communities since 1989, focusing on 15 communities from across the country[3]. In this study, the data are taken from a sub-sample of the funeral societies in those villages where key figures could be interviewed. In total, detailed data has been collected on 78 funeral societies in seven villages[4] — about half the number of funeral societies present in these villages. In one village, the data were matched to the households in the household survey, allowing some more detailed analysis. The village in question consists of the communities in Sirbana Godeti, a relatively prosperous village in Oromiya Region in central Ethiopia, where about 30 funeral groups were identified, about half of which were studied. Additional data from communities in Southern Ethiopia complement this analysis, although for the time being these data are not fully analysed[5]. It should be stressed that some of the *detail* of the way the organisations function is different across rural and urban Ethiopia, but most of the fundamental characteristics are common across large parts of the country.

3. Details of the overall survey are in Dercon and Krishnan (2003).
4. "Village" is used to mean a Peasant Association. Rural Ethiopia is administratively divided into Peasant Associations, which are a collection of communities.
5. The data on Sirbana Godeti were collected in 2002, but the data on the other villages were only collected from October to December 2003, and are not yet matched to the household data.

The second context is a village in Kagera Region in Western Tanzania, called Nyakatoke, relatively close to the Ugandan border, near Lake Victoria. A detailed survey of all community organisations and informal networks, with an emphasis on insurance-based linkages, was conducted — details are in De Weerdt (2004). A total of 20 groups with a prime insurance function were identified and were included in the analysis.

In Ethiopia, the funeral associations are known as the *iddir* (*e'dir*) — associations that ensure a payout in cash and in kind at the time of a funeral for a deceased member of the family of a member of the group[6]. In the Tanzanian village, the associations studied provide additional insurance beyond the basic "traditional" funeral society, the *Bujuni*. They include seven Women's Associations, themselves united in the Muungano (the Union of Women's Groups), four neighbourhood and five religion-based groups. As will be argued below, their main function is insurance, and funeral insurance is the key and unifying element. Table 1 summarises a number of the common elements across contexts — they apply to *all* the groups studied in this paper.

Table 1. **Common Elements in Funeral Groups in Tanzania and Ethiopia**

Membership	Founding members plus by application; payment of a membership fee; some groups particular membership restrictions (women, religion).
Insurance schedule	If funeral, payment schedule conditional on relationship of deceased to member.
Form of payout	In cash plus in kind (food plus use of capital goods) plus labour.
Rules and regulations	Written rules, and book-keeping. Fines for non- or late payment or no show (in the case of labour contributions).
Governance structure	Elected Committee.
Spread	Large number of groups per community, with individuals that are members of several groups.

Source: Data collected by the authors.

Membership is clearly defined, with written lists, and by no means do these groups consist of a loose, rapidly changing association of people. Membership is confined to founding members and those applying to become members afterwards. In both contexts, there is a membership fee to be paid when joining after formation. A number of instances were found where groups have particular restrictions, such as by gender or age. Payments are made when members incur costs related to funerals (and, as will be discussed further, in some cases related to other instances as well), following the death of a relative covered by the policy. The actual payout is conditional on the relationship of the member to the deceased: for example, the payment for the spouse of a member is typically different from the payout for a child or for uncles and aunts.

6. '*Iddir*' is the generic name. In some areas, other local names are used – such as '*kire*' in parts of Wollo. They are all referred to as *iddir* in this paper.

Payouts occur in cash and in kind (food) as well as in the form of labour services. In both contexts, there are written statutes, bylaws and records of contributions and payouts. The rules define membership procedures, payout schedules, contributions and also a set of fines and other measures for non-payment of contributions, or for matters such as failure to attend funerals or not contributing enough in terms of labour on these occasions. Finally, one of the most remarkable findings of the work in these communities was the very large number of groups with a focus on funeral insurance in these communities. In Sirbana Godeti in Ethiopia, a community about 400 households, about 30 groups were found. In some other villages in Ethiopia, a somewhat more modest number seems to be present but still five or more; but in a number of villages the number of *iddirs* was well above 50 and more — in Imdibir, one of the study villages, the study was able to identify about 80 to 100 groups, albeit not all just covering the village, but with substantial membership in the village, despite having only a population of about 350 households. In Tanzania, the village studied (Nyakatoke), had a population of 120 households only, but 20 groups were identified. It is obvious from this that people can and usually are members of more than one association for funeral insurance — see below for more on this.

What type of the insurance provided by these groups? All groups in Ethiopia propose funeral insurance. In Tanzania, all but one group provided funeral insurance (the exception being a small group of 18, with only two members from the specific village). Table 2 gives the benefits paid out by the funeral society when the member dies. At the relevant exchange rates, the payout in both countries is approximately €20 on average per group. Note that the figure for Tanzania includes in-kind benefits (in terms of food) of approximately of 80 per cent of this figure. For Ethiopia, these figures do not include the in-kind benefits, although they exist but are generally more limited: in about a quarter of cases, some in-kind benefits were reported in Ethiopia, but relatively modest in value (usually coffee and injera, the basic staple food made from teff)[7]. In Tanzania, all groups reported in-kind contributions which, in all but one case, were more substantial than the cash contributions. These calculations do not include some labour services provided in a minority of cases in both countries. In Tanzania, the seven women's groups ask members to help at the funeral typically for one day, but this is not done by any of the other groups. In Ethiopia, about half the groups contribute labour (beyond the funeral) as well — typically one to three days of labour per member, including farm and related work. Especially in Ethiopia, this contribution is particularly substantial in Ethiopia.

Table 2. **Payouts in Case of Funeral of a Member**

	Benefit	Standard deviation	Median
Tanzania (in TSh)	16 655	16 477	13 000
Ethiopia (in Birr)	206	177	150

Source: Own data. Tanzania includes 13598 TSh in-kind benefits. Ethiopia does not include in-kind benefits. Exchange rates at the time of the surveys: €1 = 10 birr and 800 Tanzanian Shilling.

7. This may be different in other areas of Ethiopia, not surveyed. Mariam (2003) reports on *iddirs* in Southwestern Ethiopia only providing in kind benefits to their members in terms of food, materials and labour in the case of a funeral.

However, there are a number of other crucial differences, summarised in Table 3 below. In Tanzania, the groups identified only expect the members to provide a cash contribution to the member experiencing a death when the funeral actually takes place. In Ethiopia, about 80 per cent of the groups were charging a regular contribution, usually monthly, from the members[8]. In the village studied in more detail, all but one funeral society operated on this principle. In more urbanised contexts, this percentage is close to 100 per cent. There, virtually all groups discussed actually pay a monthly or similarly regular contribution (Pankhurst, 2003).

A key consequence of this phenomenon is that some of these groups retain very substantial savings. In fact, in the full sample (i.e. including those not charging a fixed regular contribution), asset holdings were on average about 1900 birr (€190), a substantial sum in a country with a yearly GDP per capita of only about €100. Many *iddirs* were found to have much more in terms of accumulated savings; the highest sum reported was about €3000. Obviously, regular membership contributions and group sizes play a role here as well. Average contributions per month per member of the 63 Ethiopian groups charging a regular contribution (either weekly, fortnightly or monthly) were 1.64 birr per month (the median is 1, the range was 0.25 to 5 birr, the standard deviation is 1.44). Contributions are fixed per member, irrespective of age or family size. Groups in Ethiopia were also charging substantial entrance fees for anyone currently wanting to join: about 42 birr, or 25 times the monthly contribution. Interestingly, about 40 per cent of groups reported setting these entrance fees as a fixed contribution, the rest suggested a formula based on the current assets and property per member. Furthermore, groups in Ethiopia were larger, on average about 84 members, with a median of 55, compared to an average size of 24 (median 18) in Tanzania[9]. Although a few very small *iddirs* were found in Ethiopia, in each of the seven villages the average size is larger than in Tanzania.

There is also a striking difference in the structure of the Ethiopian funeral societies relative to the Tanzanian insurance groups. In Tanzania, they are clearly providing *supplementary* insurance over and above the village level burial society, the *Bujuni* (which is the Haya word for "mutual help"). The women's groups explicitly state this in their constitution: only women from Nyakatoke whose husband is a member of the village burial society may belong. The insurance they offer is meant to cover expenses *not* covered by the burial society. The neighbourhood and religion-based groups are similarly providing supplementary cover. The women's groups have further structure: there are seven groups, all united in Muungano, the Union of Women's Groups. The Muungano offers a standard cover in terms of insurance, and then each group offers additional benefits, which differ slightly different between groups. For example, Bertha's group has 11 members and offers TSh 100, 30 fingers of bananas and 3 bowls of beans when there is a funeral, while Eles' group has 17 members and offers 3kg of meat, 2 hands of bananas and 5 bowls of beans[10]. Neighbourhood or religious groups similarly offer particular benefits, such as labour before the funeral, which can cater for specific needs for particular households. Clearly, there is an element of "choice" of product in these communities and people can express their preferences for different insurance packages.

8. Most of these groups would also ask for a fixed additional contribution at the time of a funeral.
9. Mariam (2003) reports even a mean group size of 175 in his sample of 52 *iddirs*.
10. Groups that have no name are identified by the name of the chairperson.

The Ethiopian groups are relatively speaking more homogenous in terms of products and typically do not have any "super-structure" in terms of conditional membership. Households join one or more *iddirs*, with a large number present in many communities, each offering more or less similar products, largely differentiated in terms of the amount of cash offered in the event of a funeral and, related to this, the regular contribution paid.

Table 3. **Differences between Ethiopia and Tanzania**

Ethiopia	Tanzania
Usually, regular contributions in cash (average about 0.16 per month).	Contribution only when the funeral takes place
Cumulative Asset Holding, largely in cash (mean=€190).	Limited assets (durables)
Usually relatively substantial entrance fee (mean=€4 per family).	Relatively limited entrance fee (mean for women's groups=€1)
Mean group size is 84 (median=55).	Mean group size is 24 (median=18)
No interlinked groups – no restrictions on payouts.	Women's group is conditional on membership of Bujuni.
Groups with remarkably similar organisational structure, but contributions and cash-payouts different across groups	Product differentiation in terms of insurance offered in terms of cash, labour and goods.
Overall focus is funeral insurance, but also credit and some additional coverage.	Focus is on funeral and, for women's groups, hospitalisation insurance.

Source: Data collected by the authors.

In both countries, funeral insurance is the key service offered by these associations, and the prime motive for most to join them. Nevertheless, some alternative products are being offered by these groups. In Tanzania, 13 out of the 20 organisations also offer hospitalisation insurance: a fixed payout usually in cash but sometimes some labour whenever the member or close family is admitted to hospital and a relative has to stay with the person. The average payout is about €4 per instance, well below the payouts in the case of a funeral (only about 15 per cent of funeral payouts), but still significant.

The groups spoken to in Ethiopia also clearly emphasise funeral insurance, but a substantial number offer other benefits to their members. First, about 64 per cent of groups offer loans to members, provided the funds are available, with clear (and strictly enforced) rules governing repayment. Members have to present a case for obtaining a short-term loan, and the most commonly accepted reasons are additional funeral spending, illness and destruction of a house — to put it differently, short-term credit is offered to provide additional cover, mainly for shocks. Secondly, 64 per cent (but not necessarily the same groups as those offering loans), offer other forms of insurance, but the cover offered is clearly dependent on the group. Table 4 summarises the types of insurance they offer and it is clear that each group that provides additional cover offers only a limited set of other benefits, such as fire and house destruction insurance. About 30 per cent of the groups offering additional cover provide payouts in case of serious illness in one way or another. Note that in all cases no additional separate premium is charged, but all is included in the basic premium[11].

Table 4. **Types of Additional Insurance Offered in Ethiopia**
(percentage of those groups offering additional cover)

Destruction of house	40
Illness	30
Fire	28
Death of cattle	24
Harvest	14
Wedding	14

Source: data collected by the authors.

11. In a study by Mariam (2003) of 52 *iddirs* in mainly rural Ethiopia, similar results were found. The study reports that, besides funeral expenses, insurance and/or credit was also given for house fire (44 per cent) and illness episodes (20 per cent).

III. THE ECONOMICS OF FUNERAL ASSOCIATIONS

Why do these associations take the form observed in both countries? This section discusses some of the key economic issues that these associations appear to resolve, as well as providing some suggestions as to why these organisations function in the way observed. Much of this work is preliminary and indeed much more applied theoretical work is required to understand these groups more clearly. Bold (2003) and Bold and Dercon (2004) provide more details on these issues and present some theoretical models that may account for some of the characteristics of these groups.

First, a few relatively obvious points can be made. Insurance provision in any form is affected by asymmetric information issues, leading to problems of moral hazard and adverse selection, as well as by enforcement problems, if contract enforcement is not possible by straightforward legal means. Covariate risk is also problematic. While formal insurance markets may not have developed in rural Ethiopia and Tanzania for exactly these reasons, informal arrangements within well-defined communities may face a better informational environment (i.e. monitoring is less costly) and they may be able to use local means for enforcing contracts (from indigenous customary law to socially enforceable norms).

However, it is striking that, despite this context, insurance procedures are structured (with written rules, obligations and punishments) suggesting that purely "implicit" contracts are less desirable. Indeed, the actual insurance and contracts offered by the groups suggests that issues of information and enforceability are relevant and in need of some form of second-best solution. For example, the risks insured are clearly chosen so as to avoid moral hazard — with funeral insurance the most dominant form. While the loss of earnings and wealth linked to other shocks, such as destruction of house, fire, illness and death of cattle are high as well, they are less prevalent (Table 4). Similarly, despite the high information environment, the payouts, for example for hospitalisation in Tanzania, are defined in the form of a lump sum upon receipt of proof of hospitalisation, and a clear deductible, in that costs incurred are only partially covered. In short, the contracts take forms closely resembling common "insurance" contracts even in these non-market contexts. Similarly, the *iddir* constitutions clearly stipulate, first, that no collateral is required but instead a guarantor, who is a member of the group responsible for the repayment. Furthermore, they state that, if necessary, the local (village) courts will be used to sue the guarantor in case of non-repayment[12]. In other words, the result does not appear to be a perfect risk-sharing environment, but rather contracts probably constrained by information and enforcement problems which are reflected in extensive rules and regulations.

12. These village courts are called "kebele courts" and are part of the formal legal system in Ethiopia.

At the same time, it is striking that the move towards more formal contracts does not mean that risk-pooling on a really large scale is being achieved, for example across many villages, and is more in the form of "anonymous" market-like relationships. This does not appear to be the nature of the groups. In Tanzania, all but one group considered are exclusive to residents of the particular village studied. In Ethiopia, the membership of most of the *iddirs* similarly is based on local communities. The relatively small size, the relatively localised nature of groups and the type and form of cover offered suggests that enforcement and information problems are indeed substantial problems.

What are the advantages of forming groups rather than relying on voluntary "reciprocal" transfers? It is important to note that forming a group with written rules is not the same as ensuring that the arrangement will always be enforceable afterwards. To put it differently, standard theoretical explanations suggest that "informal" arrangements could be self-enforcing, through repeated interaction, provided participation constraints — the incentives for particular individuals to stay in the arrangement in each *ex post* outcome — are properly taken into account, even though these contracts are typically only "second-best" risk-sharing contracts (Coate and Ravallion, 1993; Ligon *et al.*, 2002). Group-based systems are definitely not immune from the problem posed by individuals leaving the arrangement, which may affect the continuation of the schemes. Even though groups have been known to litigate against particular members in Ethiopia, this is done regarding repayment of loans, not related to issues of individuals wanting to leave the arrangement. In fact, in both countries, anyone is free to leave the group. As a consequence, the issue of sustainability is relevant for groups as well, and *a priori* there is no reason to suggest that it is less relevant.

However, the best way to understand membership fees and the large number of cases in Ethiopia where regular contributions are collected is that they act as a commitment device. In fact, from the point of view of pure *insurance* or risk-sharing, there is no *a priori* reason to charge members a fee and certainly not a fee related to the current assets of the group: the history of events and payouts is not relevant for the future distribution of payouts among members, so no charge should be made for late entry. However, by charging entrance fees, the surplus available if one faces a negative shock will be higher, or the risk that one will be required to pay extra when someone else faces a negative shock will be lower. In short, the expected benefits from being in the group increase, increasing the incentives to stay in once entered into the arrangement. *Ex ante* payments, before the distribution of shocks is known, similarly increase the incentives to stay in the group *ex post*.

These issues become even more relevant when addressing the issue of the stability of the entire group involved in risk-sharing activities, beyond just individual incentives to deviate. Genicot and Ray (2003) have suggested that instances of pure "informal" groups of mutual support that are stable to sub-groups breaking away and setting up their own informal arrangements may well be infrequent. The possibility of group savings appears to reduce these incentives to break away (since the assets cannot be retrieved when leaving the group), and possibly leading to larger stable groups (Bold, 2003). Entrance fees similarly reduce these incentives. As mentioned above, the groups are relatively larger in Ethiopia than in Tanzania. The fact that entrance fees and especially average asset holdings are substantially larger in

Ethiopia may well be part of the explanation for larger sustainable groups. Also, when looking at the average age of the existing groups, in Tanzania it was only about 5 years while in Ethiopia the average was fifteen years. However, in both cases, the incentives to break away remain, limiting group size, apparently well below village size.

IV. EXCLUSION, COVERAGE AND IMPACT

These insurance groups are remarkable not only by their functioning but also on account of their widespread membership. This section looks at what determines membership, how much protection is offered and how important this insurance is for its members. In the sample of 15 Ethiopian villages (the ERHS), it was found that about 80 per cent of households were members of at least one *iddir*. However, after excluding two villages in the most Northern region of Tigray, where, apparently, these institutions are not yet present, membership is virtually comprehensive. They could be found in all the other villages included in the sample and, in almost all villages, more than 95 per cent of households were members of at least one group[13]. In one village, Sirbana Godeti, where groups were matched with household data, it was found that households were members of up to eight groups and, on average, a member of between two and three groups. In Tanzania, with data on only one village, about 95 per cent of household were members of the village level *Bujuni*. Almost all households with a female adult took out additional insurance from one of the seven village women's groups. Overall, households are members of about three groups.

The widespread membership across the population suggests that these groups are quite inclusive. Even though the percentage of people not included is relatively small, it is still relevant to explore who may not be included in these schemes. The Ethiopian data[14] was used to investigate whether membership was affected by socio-economic characteristics. It was found that the probability of membership increased with the age of the head and with household size. This is consistent with people typically only considering joining *iddirs* after they marry and start a family. There was no effect from current living standards[15]. Mariam (2003) suggested that in his sample of 1200 households, mainly in rural Ethiopia, those not members were either newly arrived migrants, who were not yet well established in the area, or those not yet married but already cultivating their own land as an independent family member. In Tanzania, the few not included in any scheme were not significantly different from others. In both contexts, funeral groups were originally based on ethnicity, religion and kinship, but the large number of different

13. Other surveys confirm the widespread membership. Open-ended questioning on which social organisations households are members of in a sample in South Wollo collected found about 80 per cent of households to be members of at least one *iddir* (Mogues, 2004; Mariam, 2003) reported in his survey of about 1 200 households in 40 largely rural communities in Ethiopia that 87 per cent of households were members of an *iddir*.
14. This analysis uses the 4th round of the data (from 1997) which included specific questions on membership. Membership in that round of the data was about 75 per cent – below the estimate from other rounds – possibly due to slight underestimation related to less precise use of the local terms to describe the funeral societies, affecting data collection in two villages (one in Northern Shoa and one in Daramolo). The regressions used a probit model, using community level fixed effects.
15. In particular, current consumption levels are not significant. Land holdings are also not significant, while there is a very small effect from livestock holdings, increasing the probability of being a member, but the marginal effect is very small and only significant at 11 per cent.

groups available means that there everyone could in principle be a member of some group. For Ethiopia, Mariam (2003) added that all *iddirs* in his sample area now state that anyone in the same locality, regardless of religion or socio-economic status could apply to be members. In Tanzania, qualitative interviews with members and non-members confirmed that once one is willing to adhere to the rules of the group and give timely contributions when the rules so demand, there is likely to be no objection to anyone joining a group.

However, in both cases there is evidence that the extent of coverage is higher for richer households. In both contexts, households can be members of different groups. As a result, people can choose to have more insurance coverage by joining more groups, or by joining groups offering higher insurance linked to higher contributions. This is investigated further in both data sets. In the data on Nyakatoke, an investigation on the coverage taken out by households suggested that the mean funeral coverage was equivalent to about 21 per cent of total yearly household consumption (while health coverage offered was on average about 2 per cent). In Ethiopia, it was not possible to analyse coverage on the full data set, but there is data on total payments over a four-month period in 1997 by households to *iddirs*, which will give a good indication of the coverage they could themselves receive. Table 5 reports the result of simple regression analysis, linking the funeral coverage (Tanzania) or total contributions (Ethiopia) to a set of characteristics. For the Tanzanian data, ordinary least squares were used; for Ethiopia, where about a fifth of households did not spend on *iddirs*, a tobit model was used. In Ethiopia, the regression controls for community fixed effects, so the focus is on within-village differences. The characteristics used were household size, age of the household head, whether the head had completed primary school, sex of the head and a set of (cumulative) dummies for wealth (based on the overall consumption levels). The Tanzanian data also allow for controls for the location within the village and for the shared genetic stock with other people in the village.

Table 5. **Determinants of Funeral Coverage/Contributions per Household**

	Tanzania		Ethiopia	
	Total funeral coverage per household (ordinary least squares)		Total contributions per household (tobit model with community fixed effects)	
	Coefficient	p-value	Coefficient	p-value
Household size	4601.6	0.026	1.452	0.000
Age of household head	272.1	0.471	-0.046	0.193
Primary school completed?	-1937.0	0.875	-2.794	0.113
Sex of head	-1265.9	0.933	2.811	0.027
Genetic share*1000	1065.2	0.087	-	-
Distance to centre of village	6.5	0.863	-	-
Richest 75 per cent (dummy)	32741.2	0.040	2.568	0.092
Richest 50 per cent (dummy)	-17264.6	0.275	2.308	0.109
Richest 25 per cent (dummy)	7208.1	0.634	3.055	0.039
Constant	62.1291	0.058	-24.602	0.000
R-squared	0.135 (adjusted)		0.0654 (pseudo)	

Note: Genetic share is defined as the extent of blood relationship with other people in the village; richest 75 per cent is a dummy one if person belongs to the 75 per cent highest levels of consumption per adult; richest 50 per cent and 25 per cent are similarly defined. Note that for the richest 75 per cent, the three dummies will have the value one. The poorest group is excluded. Data size for Ethiopia data is 1260; for Tanzania 120.

The regression suggests that larger households take out more coverage, which suggests that they respond to the incentives given in the scheme: larger households stand to benefit more from the system. In all groups, the policy covers all members of the household irrespective of total household size. However, there is no extra cost when insuring extra individuals within a household — so it is relatively more advantageous for larger households to join. The other key effect is that the poorer households have significantly less insurance. In the Tanzanian data, the richest 75 per cent dummy is positive and significant, while no other wealth dummies are significant. The size of the wealth effect suggests that in Tanzania, the poorer have typically 25 per cent less coverage than the average household. Similarly, in Ethiopia, contributions systematically increase with wealth, and there is clear evidence of the richest 25 per cent insuring themselves significantly more than the rest[16].

A further issue is the composition of the groups: who joins what type of group? Is there any evidence of matching or selection in the group composition? Assortative matching is typically considered as a benefit in terms of being able to save on information and enforcement costs — it is often suggested that similar people will find it easier to monitor and enforce contracts (Hoff, 1997; Ghatak, 1999). Nevertheless, analysis of the group composition in the matched data of households and groups in both countries found only limited evidence of matching. For example, there is no evidence that richer people joined specifically particular groups. In De Weerdt (2004), this was found to be rather different when investigating pure "informal" linkages between households in the Tanzanian sample (where linkages were defined on the basis of household and individual level questions on "who would you turn to for help?" and "to whom would you give assistance?"). The evidence showed that wealth and geographical distance mattered significantly and strongly in determining these linkages. In other words, this suggests that these more formal organisations can afford to allow people from a more diverse background to become members, presumably since clear rules and regulations can compensate for some of the informational and enforcement advantages of social and geographical proximity.

Finally, how important is this funeral protection for the households involved? Funeral costs are very substantial — although the full costs are hard to estimate, but definitely a significant proportion of a month's income. In Ethiopia, the average cash payout per *iddir* is about 40 per cent of monthly household consumption (and the average household is usually a member of more than one group), so *iddirs* are crucial to allow households to cover these expenses. In fact, the Ethiopian Rural Household Survey data suggest that for the poorest wealth quartile, monthly payments to the *iddir* are about 40 per cent of total monthly health

16. It is standard practice to have multiple memberships of groups as a means of increasing coverage. Alternatively, it could be asked why they are not choosing to increase contributions in the existing groups to get more coverage. When discussing this with the groups, it was argued that the only feasible group structure is one in which everybody contributes the same, so that coverage is identical among members. Furthermore, it was often hard to find consensus among all members to increase contributions once a group is established so that for a member to obtain higher coverage, the most feasible route would be to also join another group, unless enough people can be found willing to set up a new group with higher coverage, and leave the original group. As discussed before, membership fees limit the incentives for this behaviour.

expenditures — and for the richest groups still about 30 per cent[17]. In Tanzania, payouts per group to the household are about 25 per cent of average monthly consumption, while households are typically a member of about three groups.

In short, these sums are substantial, and given the large expenses required for socially acceptable funerals, the funeral insurance groups perform a crucial role in these communities. However, one should not forget that, apart from this substantial insurance, much risk remains uninsured resulting in substantial welfare fluctuations and losses — for example, see Dercon and Krishnan (2000) and Dercon and De Weerdt (2002). Dercon and De Weerdt (2002) found that health shocks were causing households to cut back on average about 20 per cent of non-food expenditure in the Tanzanian sample. In Ethiopia in 1994-95, more than 10 per cent of households drifted into poverty directly related to shocks. Exploring ways to strengthen funeral societies so that they can offer more benefits to their members and the community would be worthwhile. This will be discussed in the next section.

17. The fact that the poor spend relatively more on funeral expenses than health expenditures than the rich is also an indictment of the health service quality and access offered to the poor in Ethiopia. It suggests a lower income elasticity for funeral spending than for health spending, which implies that funerals are considered more of a necessity than health spending by households. When incomes fall, they will cut back more on health than on funerals: they consider it better to spend money on burying people than trying to cure them.

V. SCALING UP THE FUNERAL ASSOCIATIONS

The study of these insurance groups is interesting in itself. Indeed, one key argument in this paper is that there is a lack of literature on indigenous insurance groups, such as funeral societies. A further issue takes centre stage in this section: what can be learned from these institutions for policy makers and, more specifically, can these groups serve as the basis for scaling up insurance and other development activities? It is often stressed that developing policies that strengthen indigenous risk-sharing arrangements should be an important part of general social protection policies (see Dercon, 2004, for a general discussion; see, for example, Preker *et al*., 2001, for a discussion focusing on health financing]. Typically, these indigenous arrangements are usually seen as informal, reciprocal systems of mutual support and question marks exist about whether they could survive any attempt to formalise these arrangements (Conning and Kevane, 2004). However, if existing arrangements are formalised and based on well-organised groups, then the potential exists for effective scaling up. In this section, the issue of scaling up the funeral societies is assessed. First, some general arguments about why they may be useful partners for interventions are presented. Then, the types of interventions that could be supported are discussed.

The general argument to target funeral societies to scale up is relatively straightforward. First, these groups are independent and well organised. They have lists of members, written rules and regulations, well-defined contributions, regular meetings and elected executive committees. They have group property in the form of durables and may indeed keep substantial assets from past contributions, membership fees and fines. However, they still combine some of the strengths of "informal" institutions, with members from relatively well-defined communities and networks, and nested in accepted customary legal systems. These factors contribute to a more conducive informational and enforcement environment than market-based systems often do. They also appear to be generally inclusive organisations — with the poorer groups having access to them, and most likely more so than in more informal arrangements or in other types of institutions. They often appear to transcend gender, age, wealth, ethnicity and religion. Finally, there is also some favourable evidence of their ability to handle change, not least since their history suggests a flexible evolution to improve their organisation and functioning in the context of a changing political environment.

There are two directions in which these institutions could be strengthened. First, they could be assisted in extending their activities towards broad developmental purposes, building on their ability to organise and mobilise people and, more broadly, on their existing social capital. Alternatively, they could focus on what they are doing at present: insurance provision and related financial activities.

The advantages of engaging the funeral societies into *broader developmental activities* are substantial: their organisational strengths, independence and inclusiveness make funeral societies excellent grassroots organisations for channelling development activities and funds. Some NGOs, most notably ACORD in Ethiopia, but also a number of indigenous NGOs in Ethiopia, are trying to build on *iddirs* for broad community-related development activities with some success, for example in the area of health education, water and sanitation. For example, PropRight is an NGO working with *iddirs* in Addis Ababa and is focusing in their work with *iddirs* on HIV/AIDS education and sanitation projects. Facilitators for Change supports *iddirs* in developing different development programmes for their communities. The NGO "Mary Joy" also developed partnership in urban areas with *iddirs*. The NGO SOS-Sahel has worked with the local form of burial association in North Wello to promote seed and grain banks, and natural resource management. There are also a number of other instances in which the Ethiopian government has expressed interest in using the *iddirs* for a wide variety of development activities including technology transfer in agriculture, but these activities remain minimal. In rural areas, the Swedish International Development Agency (SIDA) has proposed to work with *iddirs* in Amhara Region, but the suggestion has not been taken up by the regional government. In general, while often effective, these activities have largely been pilot activities without any subsequent larger-scale systematic "scaling up"[18].

Using the *iddir* for broad development activities may not be without problems. There is first a legacy of past experience of interaction with "formal" institutions, not least with government institutions. In Nyakatoke in Tanzania, the emergence of the insurance groups is closely linked with splits from government-sponsored institutions that were hijacked for political purposes. In Ethiopia, there was the clamp-down and security related registrations in the 1960s, and subsequent attempts (in the 1970s) by local and national government authorities to use the *iddirs* for political ends as well as the marginalisation of the indigenous groups during the Derg period in the 1980s. Indeed, it is likely that these organisations will be very suspicious towards broad government-sponsored interventions targeted at the funeral associations in both countries. Furthermore, any broader role of the *iddirs* in developmental activities is bound to require registration and some form of regulation — which may well be interpreted as an attempt to control and interfere with their existing activities. In short, the risk of capture by political and other groups may well be a real threat.

There is also an issue of inclusion. It is no doubt a strength that these institutions are relatively inclusive, both within and across communities. However, this is bound to come under threat if involving these institutions in broader developmental work requires further formalisation, regulation and registrations. Making them suitable to handle further activities would be costly and would also require more educated staff, resulting in the exclusion of some of the "poorer" associations and groups from these activities.

18. It should be noted that in Tanzania, in the survey area in Kagera Region and beyond, no evidence could be found of the engagement of local funeral groups in any other developmental activities, so the evidence presented has to be based on the Ethiopian experience.

Finally, there is the issue that broader developmental work would require additional skills and other changes in these institutions. In fact, it is striking that, in both contexts, there is evidence that these associations were initially involved in other activities, but that now their focus seems to be largely on insurance and, more specifically, on funeral insurance, a function they appear to have perfected. Broader activities would require changes in constitutions and bylaws, building consensus among members and obtaining relevant expertise. This would be largely uncharted territory, and involve substantial risk for these institutions, despite their inherent flexibility.

What about the other route — scaling up in the direction of *insurance- and finance*-related activities? Given that the expertise of the funeral associations is insurance and credit, it could be argued strongly that they should become involved in further insurance provision and broader microfinance activities. These institutions are currently expected to perform such activities — and the evidence suggests that they have perfected handling issues such as funeral insurance. In Ethiopia, they also fulfil a credit provision function, even though largely focused on credit as insurance. There are at least three possible directions, as illustrated by the activities of one particular organisation, the Shashemene Microfinance Institution, an NGO in Ethiopia whose activities include working directly with *iddirs*, and by the evidence related to health insurance initiatives[19]. The options, which are not mutually exclusive are: *i)* savings facilities; *ii)* credit provision; and *iii)* further insurance, including for health.

The fact that these associations are well-organised institutions with an insurance and even a credit objective creates possibilities for a number of microcredit and other microfinance products, for example linked to some microfinance institution (MFI). Below are some of the possibilities. First, savings facilities could be the first facility to be offered by a MFI — taking advantage of the regular meetings, and the habit of giving contributions, as in the case of many of the Ethiopian funeral associations. The Shashemene Microfinance Institution used this practice.

Secondly, credit may be extended via these groups. Group-based lending is a favoured intervention, not least given the example given by Grameen Bank in Bangladesh (Morduch, 1999). Besley (1993) emphasised the use of group lending, especially if these groups can exert some pressure to enforce repayment. Even without social pressure, joint liability can, under certain circumstances, provide the necessary incentives to sustain lending operations. Established funeral groups, with well-defined incentives to co-operate to sustain their funeral and other insurance activities, may need *less* social pressure to ensure repayment if the insurance operations are interlinked with credit provision and repayment. Furthermore, Conning and Kevane (2004) noted that a key problem with introducing microfinance (or in general, scaling up financial market operations in areas where formal financial markets were largely missing) is the lack of intermediary capital — essentially, some agent who possesses local information and who would be willing to commit his capital so as to have a vested interested in monitoring repayment. This would allow this agent to be chosen as the "delegated monitor", and assist in crowding in capital into the local community.

19. The Shashemene Iddir Microfinance institution has been active for about three years and currently works with 64 *iddirs* covering 2 500 members in the town of Shashemene in Oromiya Region in Ethiopia. The initial loanable funds were given to them by ACORD.

The funeral groups could be in a unique position to exploit their structure and organisation to serve these different purposes. For example, consider those funeral groups that collect regular contributions. These groups could be asked to hold their reserves (effectively, their loanable funds) in a savings account with a MFI, providing collateral for any credit. In return, the MFI should match the funds, with the result that the total loanable funds become a multiple of the initially available loanable funds without MFI involvement. Contracts could then be designed to make the *iddir* an effective "delegated monitor". Via its committee (which is controlled by its members), the *iddir* could itself decide who receives the loans — as it would do for its own credit operations. It would be fully in charge of screening, monitoring and ensuring repayment. The *iddir* would be jointly responsible for repayment to the MFI, and the savings would be used as collateral, while standard joint liability conditions would be applied, such as cutting off further credit if repayment does not materialise, while punctual repayment would give access to more funds. In short, it is a form of group lending, but as a well-organised institution with financial experience, the *iddir* has more freedom and responsibility than usual group-based schemes, increasing its efficiency and cutting transaction costs, and joint liability could be complemented with collateral via the *iddir's* own reserves.

A third option would be to help the funeral associations to give better and more insurance. There are a number of possibilities in this respect. First, one could arrange better (cheaper) coverage for funerals, by reducing their costs and sustainability via simple reinsurance schemes. Reinsurance of the mortality risk could have substantial benefits. Most groups using regular contributions to sustain their operations report having to contribute extra funds once in a while to ensure the survival of the group when there is a sequence of abnormally high claims. In at least one instance, a group in Ethiopia had reportedly collapsed in the study villages. An increased size of each group would reduce the probability of this collapse, but the size of groups remains restricted due to increased incentives for groups to deviate (Genicot and Ray, 2003) and due to the deterioration of mutual information as the group is extended to include more members. However, schemes of reinsurance could be implemented, in which *groups* pool their risk of running out of funds to honour payouts, for example via a MFI. Pricing such contracts is not self-evident and requires substantial data. Crucial issues would include means of verification (for example via death certificates) and some form of audited accounts, but these are issues that could be overcome. The benefit would be that more risk pooling would be achieved, without fundamentally undermining the internal dynamics within each group. At the same time, premiums could actually be reduced, or a higher share of the reserves could be used for credit provision within each group.

Secondly, the funeral societies could also be helped to increase the cover they offer to their members. Funeral insurance is a relatively easy product — with straightforward monitoring, and the issue of moral hazard is less relevant. Mortality risk also has relatively limited covariance within communities, so that small group-based schemes may well be able to handle the risk involved. The other products offered in both countries focus on non-covariate risk, such as the destruction of a house or fire, limiting moral hazard, despite living in relative proximity of all the members. Covariate risks, whereby claims would be put in by many members at the same time, cannot normally be handled by these groups. When illness insurance is offered, such as the hospitalisation insurance offered by the women's groups in Tanzania, its design still aims to ensure proper monitoring (not all illnesses but only hospitalisation is insured) while moral hazard is limited by only offering lump-sum payments irrespective of costs. In short, even in this relatively high information environment, the type of risk handled is restricted, focusing on non-covariate and relatively frequent risks. Other products may not be easily offered, unless solutions for monitoring and sustainability are found.

Health insurance is one possible product. Health insurance via community-based groups has been receiving much attention in recent years (Jütting, 2003; Preker *et al.*, 2001). While, in many cases, the groups involved are specifically set up for health insurance purposes, often encouraged by a facility or NGO, some of the lessons on their effectiveness are useful when considering scaling up activities, not least since the funeral societies have a relatively strong institutional foundation. Experience in other countries suggests that community-based health financing schemes can increase protection against illness and increase the use of health care, although important problems remain such as those related to the exclusion of the poorest if no subsidy is offered and the small size of the risk pool, affecting sustainability (Preker *et al*., 2001).

Some attempts are under way to encourage increased health insurance via the *iddirs* in Ethiopia. Mariam (2003) reports on a feasibility study for such a scheme. Households that were members of *Iddirs* in his sample were asked whether they would consider joining an additional health insurance scheme run via the *iddirs*, and about 86 per cent of households replied positively. On average they were willing to contribute about 2.5 birr per month for this scheme — implying a 50 per cent increase on the premiums they were already paying for funeral protection in this particular sample[20]. Both the willingness to join such a scheme and the amount people would be prepared to contribute was found to be positively correlated to household income. Households also declared that they mainly wanted insurance to cover expenses for drugs, emergency services and in-patient admission. Mariam (2003) made detailed suggestions on how the insurance scheme could be organised in the survey area, but no actual pilot scheme has been implemented in this area for the time being. However, there have been a few initiatives in recent years related to health insurance. The ILO sponsored STEP programme in Ethiopia is exploring schemes that would effectively involve local health facilities, local NGOs and *iddirs*. The role of STEP is restricted to general support and training to implement this type of contract between the different agents involved, and there is no direct financial support. A number of the NGOs and organisations they work with already have experience in working with *iddirs*, so the STEP programme assists in extending their activities. For example, they support PropRight and Facilitators for Change in the further development of health insurance schemes in the areas in which they work, as well as Action for Development, an NGO providing group-based savings and credit facilities. Despite recurring statements of intent by the Ministry of Health to support such schemes more widely, the actual experience with them remains limited.

20. Note that this suggests that their willingness to pay for health is only half what they are willing to pay for funerals, consistent with the findings discussed in footnote 15.

There are substantial problems requiring careful attention related to the sustainability of these institutions when they are encouraged to increase the products they offer, most notably the problem of the relatively small risk pool. Two issues will be briefly discussed. First, reducing information costs would reduce costs and make the institutions more sustainable. Better monitoring possibilities, for example via interlinked contracts, could allow risks otherwise affected by moral hazard to be more readily included[21]. Secondly, the possibilities of reinsurance should be explored further since, by widening the risk pool, local institutional arrangements could become more sustainable. In fact, reinsurance could create possibilities to increase coverage into the direction of locally covariate risks (i.e. risks that affect a large number of people within one group, but only affecting a few groups). Examples are weather risks, but also local peaks in morbidity, such as linked to seasonal effects (malaria) or even local epidemics. However, a standard but key requirement for reinsurance to be feasible is the need for an acceptable means of verification that the events indeed took place in order to be able to price reinsurance contracts. Indeed, the dismal history of crop insurance policies in many developing countries would not suggest that this route would be desirable. There would nevertheless be possibilities for combining alternative schemes. One example is the recent suggestion regarding weather insurance policies, whereby payments of insurance policies would be triggered by monitored local level rainfall levels and not by reported output levels (Skees *et al*., 2004). Similarly, suggestions related to health financing focus on systems of reinsurance of community-based financing schemes, triggered by average risks, not individual risks. Given the efficiency and equity gains that can be achieved, subsidies to these schemes could be justified (Dror and Preker, 2002)[22]. These models could be used for other risks as well. Groups could be invited to take out these policies from an MFI or other financing institutions, but how they handle and distribute payouts among their members could be left to the local insurance group. In sum, there is substantial scope for using funeral societies to offer alternative credit and insurance products. The local experience with finance products could be a substantial advantage. Nevertheless, funeral insurance is a relatively easy product and, to keep the institution sustainable, other assistance with management, reinsurance and financing may be required to assist with the transformation of the funeral societies. As far as could be established, there is no record in Tanzania of NGOs or of the state working with funeral groups, while much careful evaluative work of the limited experience in Ethiopia is required to establish the appropriate models.

21. The STEP model of linking *iddirs*, NGOs and facilities could be built upon to achieve this in the case of health insurance. An MFI could deliver health insurance via the *iddir* but closely linked to a health facility – which should be responsible for some monitoring, for example requiring that only costs at the facility are covered and only for diseases which could not have been easily prevented, for example through immunisation, providing incentives to take health education seriously. The resulting contract would effectively be a three-way contract between MFI, *iddir* and the health facility. Similar contracts are not uncommon in community-based health insurance (Preker *et al*., 2001).

22. A detailed discussion of all the issues surrounding reinsurance is beyond the scope of this paper, but the reader is referred to Dror and Preker (2002).

VI. THE CHALLENGE AHEAD: HIV/AIDS AND FUNERAL SOCIETIES

The previous section demonstrated that there is substantial scope for careful and innovative ways of involving institutions such as funeral societies in broader forms of developmental and insurance activities. However, an equally urgent issue is to ensure that funeral insurance is not threatened by the fundamental change in mortality risk in Africa, not least in Tanzania and Ethiopia. HIV/AIDS has been ravaging the study area near Lake Victoria in Tanzania for at least a decade while, in Ethiopia, the epidemic is currently expanding at an alarming rate. This section discusses the limited evidence available on the impact of the AIDS crisis on funeral societies.

A priori, HIV/AIDS has brought about a fundamental change in the risk environment faced by funeral societies. These institutions had been developing in a context of gradually decreasing mortality figures in the decades up until the 1990s. The impact of HIV/AIDS has resulted not just in higher mortality, but has also brought about a fundamental change in the mortality risk distribution across the age and possibly even the wealth distribution. The result is that the likelihood of the funeral society being asked to contribute to the funeral of a member has increased, putting pressure on the finances and sustainability of these institutions. During interviews in the rural sample of *iddirs* in Ethiopia used in this paper, *iddir* leaders suggested that HIV/AIDS had only had a limited impact on societies so far. This is likely to be correct: in rural Ethiopia, the epidemic is only now beginning to spread and mortality rates have only just begun to increase. Consequently, funeral societies have not yet had to change their rules. In any case, in recent years mortality figures in most parts of rural Ethiopia are more likely to have been more affected by the deaths of conscripts of the Ethio-Eritrean war of 1998-2000 and the drought in 2001/02. However, many had sufficient information on HIV/AIDS to report that premiums would have to increase in the future. In the particular study village in rural Kagera in Tanzania, similarly only limited impact of HIV/AIDS on funeral groups was reported although generally the groups surveyed were well aware of the actual and potential problems involved. They also could report anecdotal evidence on changes in funeral societies' arrangements in some areas linked to HIV/AIDS, for example involving less expensive funerals.

The clearest evidence available on the impact of the crisis comes from Pankhurst and Mariam (2004), based on a survey in urban Addis Ababa on the impact of HIV/AIDS on the *iddirs*. They found that of 120 respondent *iddirs*, 93 per cent reported experiencing an increase in the number of deaths among their members in the last three years. The number of households receiving burial support in the past had been about 20 per group on average, but this average has now increased to about 31. The observed increase in mortality was largely confined to the age group of 15 to 35 years, consistent with the demographic predictions on the impact of HIV/AIDS.

The *iddirs* also reported increases in bankruptcy of other *iddirs* due to increased mortality, while about a third of *iddirs* had already started to respond to the crisis by increasing contributions or finding alternative ways of increasing income, such as by renting out utensils. Another study (Tesfaye, 2002) found similar consequences and responses due to the crisis. This is also bound to put pressure on the poorer members of *iddirs*. On the basis of the in-depth study of three *iddirs* in Addis Ababa, Shewamoltot (2001) found substantial increases in regular contributions and suggested that some members had already withdrawn from the *iddir* due to the increased financial cost. Other *iddirs* tried to contain the crisis by only paying out half the usual benefit at the time of the death and the other half conditional on the continuing payment of the membership fee by the surviving family members. Finally, a striking consequence of the HIV/AIDS crisis on the *iddirs* is that all these studies report that many *iddirs* have taken the lead in HIV/AIDS education of their members — about half the *iddirs* interviewed in 2002 by Pankhurst and Mariam (2004) now provided such information.

This evidence clearly suggests that *iddirs* are likely to come under increasing pressure in the next few years making increased contributions inevitable. The result is likely to be a less inclusive institution, with the poor increasingly less able to contribute. The fact that *iddirs* are responding to the crisis in different ways is encouraging, and suggests that their survival in one form or another may well be possible. In any case, if their important function in the social fabric as a key social protection mechanism is to be maintained, it may become even more important that policy measures are taken to strengthen these institutions.

VII. CONCLUSIONS AND POLICY IMPLICATIONS

Indigenous voluntary associations may well be suitable institutions for many development activities. There are an increasing number of examples in Ethiopia of successful involvement in broader development activities or more microfinance-related activities, in collaboration with local NGOs. However, the success of such activities should not simply be taken for granted. These institutions have developed in the way they did, partly in response to attempts by political forces to capture communities for their own purposes. A systematic attempt by government-led institutions to scale up these insurance groups may be met with deep suspicion and perceived to be a threat to their own continuation. Strictly voluntary schemes, based on extensive experimentation, are the only realistic way forward. However, in a context where ownership and community-based development are perceived to be desirable in policy design and implementation, offering these insurance groups the opportunity of being included in the process and providing them with ways to strengthen their capacity would be a sensible strategy. What could policy makers do to mobilise the potential of these institutions more fully, without jeopardising their survival?

First, their potential should be properly recognised. In Tanzania, at least in the Kagera Region, it is striking to note that policy makers appeared to show no interest in these institutions. Any effort by policy makers to involve local institutions in development activities still focuses by and large on institutions imposed from above during the Nyerere period. The emergence of independent funeral insurance groups, as well as the potential of the more traditional community level funeral society (the *Bujuni*) remains unrecognised. The situation is different in Ethiopia where many NGOs have taken initiatives to build on the existing *iddirs*, although they are still largely unrecognised by national or regional policy makers, or the large donor agencies (an exception being ILO-STEP). In general, the interest of NGOs and other organisations has been from those involved in community-based development initiatives (mainly small NGOs) and those interested in health interventions (such as related to health insurance and other financing initiatives). The potential of *iddirs* is obvious in these fields, but it should be seen more broadly, including interventions related to the development of an overall social protection system and to microfinance activities, in which insurance activities take their rightful place.

Secondly, any interventions will require a careful partnership between the local institutions, local policy makers, NGOs and other institutions. The history of the funeral groups in both countries includes much scepticism towards intervention from above, and a strong desire for independence. This has to be recognised and may be part of the potential strength of the partnership[23].

Thirdly, building on the funeral associations to enable them to offer more insurance and other activities should not only be evaluated on efficiency grounds. More specifically, these institutions have much potential to contribute to development and finance activities in a sustainable way, provided appropriate support is offered. As established and experienced institutions, they are likely to do this at a relatively low cost. In this sense, working via the *iddir* would be an efficient way of contributing to development. However, they are also remarkably inclusive, and they may well be the most inclusive local institutions in most communities. As such, they are also excellent agents to reach relatively poor people. Policy makers should take this into account in any cost-benefit analysis of the modes for channelling resources.

Fourthly, there is substantial variation among the different funeral associations in terms of current products and activities. This would suggest that there is no single optimal way of engaging these institutions. Most interventions with *iddirs* have focused on one product or activity. For example, health insurance has been the focal point of STEP-ILO. This may not necessarily be the optimal way of engaging them: it is likely to be better to offer a range of products and different models to work with them. The funeral associations studied in this paper all seem to be proud of their independence. They should be offered a choice of different ways of scaling up and engagement in other activities.

Fifthly, which products and activities to offer is hard to assess without further study. Despite the fact that substantial numbers of NGOs have engaged with *iddirs*, there is currently no systematic evaluation of all the different interventions tried. Priority should be given to setting up a systematic and careful evaluation, possibly with an experimental design, for example along the lines of Gugerty and Kremer (2002).

Finally, the HIV/AIDS crisis may require urgent interventions for funeral societies that are faced with unprecedented changes in the parameters of their activities due to increased mortality of younger cohorts. One option that should be investigated is to design a simple safety net, and *iddirs* could be offered the choice of opting in. Subsidised reinsurance could be offered to those funeral associations with clear records of mortality in their group. Payouts from the scheme could come when mortality figures can be proven to be increasing over time. Furthermore, more systematic efforts should be made to make funeral societies agents for information on HIV/AIDS.

23. The experience of STEP-ILO with some *iddirs* is striking. It was noticed that while the *iddirs* were willing to get involved in health insurance activities, they insisted in operating totally separate accounts from their core activity, funeral insurance, to ensure that members would not worry about the sustainability of their funeral insurance due to the expansion into other activities.

ANNEX 1: A SHORT HISTORY OF FUNERAL ASSOCIATIONS

It may be tempting but wholly misleading to consider these insurance groups as age-old traditional institutions. There is no doubt that mechanisms of mutual support would have existed in traditional society, but this does not imply that the currently observed funeral associations are just replicas of these mechanisms. In this section, a brief discussion of the origins of these institutions is presented — more details can be found in Pankhurst (2003) and De Weerdt (2001). The main point in this section is to show that these institutions are best understood as organisational structures developed in interaction with the general socio-economic and political context, and that they evolved in response to changes in this environment[24]. Some of the existing literature on these institutions in Ethiopia appears to take issue with this view, not least with some of the detail involved (Aredo, 1993, 1998). For example, Aredo (1998) suggests that these institutions may even have existed in the 19th century — even though there is no clear evidence in written sources on this, and our own investigations in the same field setting as Aredo suggest that the basis for this claim is weak. In any case, much more work is needed to properly settle some of these issues[25].

It is more appropriate to refer to these institutions as indigenous voluntary associations, rather than, for example, community-based organisations, or traditional or informal organisations. These are definitely institutions of voluntary association — clearly, no-one is under strict pressure to become a member of a particular group, definitely not compared to the stricter kinship-based systems[26]. They are also clearly indigenous in that, in both contexts, they are locally initiated rather than set up by external agents or authorities — although not necessarily "local" in that outside influences or groups may have had influence over their emergence. As will be argued below further, they are not "traditional" — a term that would suggest that these institutions may have existed unchanged for centuries, whereas they are often relatively new creations and have certainly been evolving and changing. They are also not "informal" — the detailed rules and regulations, and indeed the links with local court systems

24. This does not contradict the earlier point that the institutions can be seen as responses to market failure. Effectively, they are non-market institutions taking on functions that a perfectly working insurance market could perform. But the specific form these institutions take on is still conditioned by the local context.
25. It was striking that no specific literature dealing with these institutions and their possible precursors in more traditional Haya society in Tanzania could be traced.
26. In Tanzania, there is some social pressure to be part of at least one women's group. Women not part of a group are considered anti-social and unco-operative. Still, they are free to choose which group to join and groups have been set up at various times.

would suggest otherwise, and that would too much suggest a strict dichotomy with "formal" organisations, such as local government institutions. Nevertheless, it is appropriate to refer to them as non-market institutions, since they are not using market processes to provide insurance, even if the contracts offered to members closely resemble those typically offered in insurance markets.

In the debate about the origins of the *iddir* in Ethiopia, a number of interrelated issues have been debated. First, is it basically a rural institution transposed in an urban setting or is it an institution that emerged in the context of urbanisation and then spread to rural areas? The answer depends on what is meant by *iddir*. Societies across the world have cultural requirements for burial and some rules of conduct regarding the way co-operation and mutual support is required for funerals. However, the specific way the *iddir* is organised suggests that it emerged in a context of monetisation and literacy, and probably closely linked to urbanisation — and the need to have clearer community links and obligations[27]. The available data suggests that it is an early 20th century institution, probably started by migrants and it was initially linked to the Gurage, an ethnic group with a history of migration and trading[28]. The number of *iddirs* increased significantly in the capital, Addis Ababa, during the Italian occupation (1936-40) and they started spreading from urban areas to rural areas thereafter. There is also little evidence that there has been any outside influence, for example from similar institutions across Africa. If anything, it is likely that they emerged in parallel with similar organisations across Africa and elsewhere.

There is also evidence of a complex relationship with the state. Until the 1960s, *iddirs* had been relatively invisible institutions. This changed when, in the 1960s, municipal authorities in Addis Ababa and, more generally, the Ministry of National Community Development sought to promote collaboration between *iddirs* and the government. At the same time, some politicians used these associations as platforms for political purposes. In this period, different *iddirs* became involved in broader development activities. An attempted *coup* in 1966, partly blamed on an indigenous migrant association, meant that the state tried to establish more control over these associations, including *iddirs*. The revolution of 1974 brought the Derg to power, after which the leadership of the *iddir* were considered reactionary elites and most *iddirs* retreated to focus only on burial activities, and the formerly strong urban associations were marginalised. Nevertheless, the spread throughout rural Ethiopia clearly continued, while the size of some urban based *iddirs* increased considerably[29].

27. Although this needs further analysis, it is striking that, in the villages covered by the ERHS, villages in less densely populated areas and with poorer infrastructure and market linkages, fewer *iddirs* were found. Furthermore, in one of the two Tigrayan villages where no *iddir* was found, villagers simply stated that this is something for town people and not needed in a (remote) village like theirs where everybody still interacted with everybody else.
28. Pankhurst (2002) presents evidence that the first reported *iddir* was formed by a group of Soddo Gurage traders, and gained legitimacy via a government Minister of Emperor Menelik at the beginning of the 20th century.
29. There are examples of large professional or work-based *iddirs* in urban areas. Note that the spread in urban areas is sufficiently large to imply that the vast majority of urban dwellers will be members of one or more *iddirs*, across social classes. Indeed, even the World Bank's country office has its own *iddir*.

In recent years, the EPRDF government (which came to power after the fall of the Derg in 1991) has increased its interest in working with associations like the *iddir*. The Ministry of Health has expressed an interest in working with *iddirs* most notably in anti- HIV/AIDS campaigns, while there have been suggestions to involve organisations such as the *iddirs* in spreading modern agricultural activities. The government has also been interested in organising *iddirs* within towns into broader associations. In the same period, certain NGOs, notably ACORD, have started to work with *iddirs*, although this remains largely a limited number of instances or activities. Some *iddirs* have themselves also started to try to expand their activities. For example, 21 *iddirs* in the west of Addis Ababa have formed an umbrella association, strictly politically neutral but focusing on developmental activities.

The experience in Nyakotoke in Tanzania provides another interesting example of how these institutions evolve in response to changing political contexts. The village burial society, the *Bujuni* (meaning "mutual help" in Haya) is a relatively old indigenous institution. However, it only became more formalised after 1973, under the impulse of a migrant from another village, who had suggested making the rules and regulations more explicit. Some form of mutual co-operation existed similarly among women, but formalisation came much later. In 1973, as part of the radical changes instigated by President Nyerere's ruling party, women were forced to "unite" in formal groups as part of the UWT (the Swahili acronym for the Union of Tanzanian Women), organised in relatively large "village" level groups interpreted to include many communities beyond Nyakatoke, with pressure to set up village shops and other collective institutions via (forced) contributions. The village shop became bankrupt five years later and increasingly the UWT groups became just political institutions. However, after this experience, some 70 women decided to set up a group involved in economic activities to raise money for events such as funerals, births and hospitalisation, independently of the UWT and surviving its gradual disappearance. The group did not survive long and from 1984 factions broke away, and effectively these groups became the predecessors of the current groups, with a common element of providing insurance for funerals and hospitalisation. In 1994, the different women's groups (under the impulse of a recent migrant) formed the Muungano, the union of the women's group, integrating the basic minimum funeral and hospitalisation insurance. Since then, the different groups have experienced a relative degree of stability via the Muungano. Overall, the groups clearly conform to the idea of an indigenous association, even thought they were initially inspired by the formalised activities of the UWT. There is no evidence of any outside involvement in any of the current groups or their predecessors, and linked to the bad experiences in the UWT, they have stayed clear of any political capture even at the local level, steering away from the activities of the ruling party or the emerging opposition. The rules and regulations have clearly evolved over time, moving gradually further away from economic activities towards a clear focus on specific insurance.

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