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THE INFORMAL AND SEMI-FORMAL FINANCIAL SECTORS IN ETHIOPIA: A STUDY OF THE *IQQUB*, *IDDIR*, AND SAVINGS AND CREDIT CO-OPERATIVES

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NOMIC RESEARCH CONSORTIUM

POUR LA RECHERCHE ECONOMIQUE EN AFRIQUE

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List of abbreviations

AAU	Addis Ababa University
AAUSACC	Addis Ababa University Employees' Savings and Credit Co-operative
ACCOSCA	African Confederation of Co-operative Savings and Credit Associations
ATSACC	Assella Truck Loaders and Unloaders Savings and Credit Co-operative
CSO	Central Statistical Office
SACC	Savings and Credit Co-operative
SACCDO	Savings and Credit Co-operatives Development Office
WOCCU	World Council of Credit Unions

Currency

The Ethiopian unit of currency is the birr; birr 2.07 = US$1, the official rate of exchange since 1973.

1 General introduction

Two of the most important informal financial institutions in Ethiopia, the *iqqub* and *iddir*, have remained the preserve of anthropologists and sociologists. The only serious available economic analysis of the informal sector is that of Mauri (1987) and Girma Begashaw (1978), which brought to light the nature and relative economic importance of this sector in Ethiopia. However, there are still different aspects of the sector which need further investigation. For instance, no attempt has so far been made to identify and characterize the *iqqub* and *iddir*. The literature to date has focused only on urban areas and has neglected the informal sector in the rural areas. Little empirical evidence has been generated to substantiate the possible linkage between the formal and informal sectors. Moreover, no attempt has been made to investigate the household characteristics of participants in the informal and semi-formal sectors. The semi-formal sector (i.e. savings and credit co-operatives), in particular, is an area that has hardly been treated by researchers.

The basic purpose of this study is to generate empirical information on the informal and semi-formal financial sectors in Ethiopia with a view to improving our understanding of their economic importance. In so doing, it is hoped that the above-mentioned gaps in the literature can be filled. The study focuses on the *iqqub* and *iddir* in the urban and rural areas and on the savings and credit co-operatives.

Two basic approaches were followed in generating the data required for this study. First, the relevant institutions (i.e. the *iqqub*, *iddir* and credit co-operatives) were studied. For this purpose, questionnaires were prepared and addressed to the leadership of the institutions concerned. In addition, interviews were conducted and documents investigated. The same procedure was followed in both urban and rural areas. Second, household surveys were undertaken to study the characteristics and opinions of the participants. In addition, the participant-observation method was used to generate complementary information.

The case study approach was taken as the basic method for generating the required data. The major case study was of Addis Ababa University (AAU). The university was selected because it has perhaps the largest work-place *iddir* and one of the most outstanding savings and credit co-operatives in the country. There are numerous *iqqubs* organized by employees of AAU. All types of workers, from labourers to professors, are represented in the university, and accessibility and cost factors are favourable to all.

The AAU is located in the capital city of the country where most of the banking and insurance facilities are located. Within AAU, we focused on the Sidist Kilo Campus where 66% of the employees are found. A survey was conducted of 6.3% of the employees of AAU in Addis Ababa. The sampled employees were almost proportionately selected from both academic and administrative staff. The administrative staff comprised professional science, administration, trade and crafts, custodial, manual, clerical, and financial.

Questionnaires were directly distributed by the researcher or by his assistants among all employees willing to co-operate (almost 99% of those approached). After sorting out and rejecting defective responses, the sample size came to 162 employees. The questionnaire consisted of 46 questions and was divided into four parts. Part 1 dealt with general questions concerning household socio-economic and demographic characteristics. Part 2 was about the *iqqub*, Part 3 about the *iddir* and Part 4 about the AAU savings and credit co-operative. The data was analyzed by classifying the sample employees into three income groups, *viz*., low-income, medium-income and high-income groups. These categories were identified by using a simple technique. The reported incomes were first listed in an ascending order and then divided into three equal parts. The bottom class constituted the low-income group, the middle constituted the medium-income group and the top class constituted the high-income group. The survey of the employees of AAU is used as an important source of data for the three institutions considered here, i.e. the *iqqub*, *iddir* and savings and credit co-operatives (SACCs). In this paper this survey is referred to as 'the survey'. Data on big traders' *iqqub* were generated through interviews with leaders and members of the *iqqub*. Questionnaires were prepared and administered for this purpose. The data on small traders' *iqqub* were also generated in the same way. The technique for data collection on *iqqub* in the rural areas is described in Section II. The data on the structure of the *iddir* were generated through a survey of 32 *iddirs* in Addis Ababa. The questionnaires were given to leaders of different types of *iddirs*. Data for SACCs were generated, mainly through interviews with officials of the Savings and Credit Co-operatives Development Office and committee members of the individual SACCs. The other major sources of data are documents and publications. The researcher has also gained from his personal experience as a long-time member of all three financial institutions discussed here.

The surveys were undertaken between November 1990 and April 1991. The rest of Section I reviews the structure and shortcomings of the formal sector and the *raison d'être* of the informal sector. Section II deals with the literature review concerning the conceptual framework, historical origins, procedure and economic importance of the *iqqub* as well as case studies of different types of *iqqub*. Section III deals with the *iddir*. Section IV discusses the conceptual framework and the international dimension of SACCs and sets the stage for the case studies by discussing the origins and development of SACCs in Ethiopia. It further discusses the linkage between *iqqub*, *iddir* and SACCs. Each part of the paper begins with an introduction and ends with a summary and conclusion. Section V concludes by discussing the implications of the main findings presented in the preceding parts.

Mention of the limitations of the study is also in order. The traditional money lender, though an important component of the informal sector, has not been empirically investigated in the study. It is extremely difficult, if not impossible, to generate data on usury, a practice which is considered illegal, immoral and secretive.

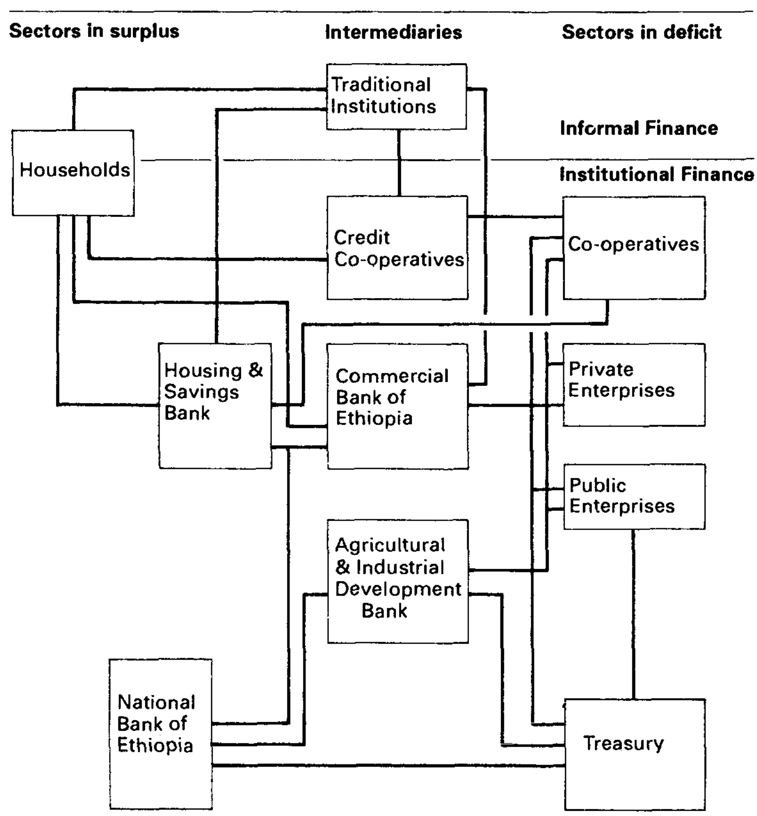
The conclusions to be drawn from this study are subject to the limitations in the data base. Definitive conclusions can be made only on the basis of further research.

The formal sector

Credit during the pre-revolution period in Ethiopia was characterized by concentration of bank operations in few urban centres (e.g. Addis Ababa alone accounted for 64% of the bank branches), high collateral and minimum loan requirements which favoured big businessmen, and the virtual neglect of the agricultural sector. By 1974 agriculture had received no more than 10% of the total bank credit in spite of the fact that the sector had accounted for more than 50% of the GDP (National Bank of Ethiopia, 1975, pp. 29-41; Haimanot Asmerew, 1990).

The post-1974 period saw the nationalization and consolidation of various types of banks into specialized banks: National Bank of Ethiopia (NBE), Commercial Bank of Ethiopia (CBE), Agricultural and Industrial Development Bank (AIDB) and Housing and Saving Bank (HSB). The NBE, being the central bank of the country, is responsible for issuing currency, planning and co-ordinating all banking activities, formulating monetary policies and acting as a financial arm of the government. The CBE, the biggest bank in the country, is primarily responsible for the mobilization of domestic savings and for extending loans to all commercial activities. The AIDB extends short, medium and long-term loans to the agricultural and industrial sectors and, more specifically, to the formal sector. The HSB concentrates on activities related to building, including private dwellings. Detailed descriptions of the banking system in Ethiopia have been written by other reseachers (Mauri, 1967; Caselli and Mauri, 1986; Yeshitla Yehualawork, 1989, pp. 383-406; Haimanot Asmerew, 1990; Assefa Admassie, 1987; Mahtsentu Felleke, 1989). In addition to the banking system, the Insurance Corporation and pension contributions can be mentioned as organized financial intermediaries in the country. The place of the above-mentioned banks in the Ethiopian economy is shown in Figure 1.

Figure 1 Financial flows in Ethiopia



Source: Mauri, 1987.

The financial intermediaries in Ethiopia are highly biased in favour of the socialist sector of the economy. For example, the loan interest rate is 7% for individual farmers and private enterprises and 6% for state and collective farms (NBE Credit Regulation NBC/CR 1). Most of the agricultural loans of the AIDB (89%) go to state farms which account for not more than 5% of the total agricultural output, while the private peasant sector receives an insignificant amount of loans (less than 1%) (Haimanot Asmerew, 1990, p. 54). Existing credit policies of the government have contributed to limitations in the farm household's access to formal sources of credit.

In recent years, the CBE has attempted to reach the rural population by increasing the number of bank branches from 86 in 1974 to 147 in 1986 (NBE, 1975, p. 31; Yeshitla Yehualawork, 1989, p. 399; Mahtsentu Felleke, 1989). However, in a country where three quarters of the rural population live a day's walk from the nearest all-weather road, it can be said that the 'savings in Ethiopia are only mobilized from urban population and organizations' (Yeshitla Yehualawork, 1989, p. 399).

The total deposits of the banking system (NBE, CBE, AIDB and HSB), in 1986/87 amounted to birr 4.3 billion, of which demand deposits were 60% (NBE, 1986-87, p. 27).

The major sources of credit for the bulk of the rural population are friends and relatives. According to the 1983-84 Agricultural Survey of the Ministry of Agriculture (Ministry of Agriculture, 1984), friends and relatives had accounted for as high as 78% of the total credit extended to the peasant sector during the survey period; the rest of the credit had originated from the formal sector through peasant service co-operatives (19%) and 'local merchants' (i.e. money lenders, 3%).[1]

The village-level financial market in Ethiopia is interlinked with other markets as noted by Wibaux who intensively studied a sample of six farm households for one whole year in the eastern part of the country:

> The farmer Ke got a sack of potatoes on credit, to be repaid in grain after the harvest. Either he did not pay it back, or the repayment was not recorded in the monitoring. Ke has negative credit balance. He does not actually lend money. He gave a goat to his sister to sell for him. The same is more or less true for T who slaughtered one of his goats giving half of the meat on credit to one neighbour who still owes him 50 Birr (1986, p. 127).

The informal sector[2]

The great bulk of the Ethiopian population makes little or no use of the formal savings and lending institutions. In a country where more than 80% of the population lives in rural areas, the few banks and credit associations that are presently operational are limited to urban areas. Moreover, these banks are little used even by the urban population. The per head deposit for the total population in 1985-86 is not more than birr 90.

The question now is 'why does the population not effectively use the formal sector?'. In the first place, it should be noted that households have a low capacity to save mainly because of the low level of per capita income in the country. In addition, the political and social climate in the country is not sufficiently conducive to savings mobilization (Mauri, 1987, p. 5). In the second place, limited savings mobilization through the informal sector may be traced to two related factors: the inability of the formal financial institutions to attract households and household reluctance to use these institutions.

The formal institutions, which are transplanted from industrial countries, seem largely inappropriate to Ethiopian realities. High costs per transaction, complex bureaucratic lending procedures, elaborate paper work, high collateral requirements and delays are some of the factors which militate against effective utilization of the existing banking facilities. Moreover, the low interest rate (6%) offered to savers does not provide an incentive to the public.

On the other hand, households may be reluctant to use the formal sector due to lack of confidence in the banking system, lack of information, and age-old social norms. For example, in a study that covered a sample of members of a rotating saving club (i.e. *iqqub*, see below) the following opinions were expressed concerning the formal sector:

> Members, when asked about it, usually explain that they resent the intricacies of the process whereby money is obtained from a bank, especially awkward questions on their financial background. Less consciously, they reveal a preference for loans secured on a mutual basis which satisfy their self-respect, rather than a one-way process which hurts their pride (Comhaire, 1966, pp. 45-46).

On the other hand, the informal financial sector, as shown by studies undertaken in developing areas (Bouman, 1977; Chandavaskar, 1985; Miracle *et al.*, 1980; Bouman and Houtman, 1988), and as will be suggested by the Ethiopian case below, has certain advantages over the formal sector. The average scale of operation and the cost of lending and recovering is small; there is freedom of entry and exit and freedom from *de jure* and *de facto* central banking control; information-gathering is kept to the minimum while trust and first-hand knowledge of a participant are important; the purpose of credit is for both consumption and investment (see Bouman and Houtman, 1988, pp. 69-70).

The nature and procedure of the informal financial sector in Ethiopia has been extensively described (Pankhurst and Endreas Eshete, 1958; Asfaw Damte, 1958, pp. 63-76; Comhaire, 1966; Alemayehu Seifu, 1969; Mekuria Bulcha, 1973; Aleme Feyissa, 1973; Cohen and Koehn, 1980, pp. 166-67; Baker, 1986; Mauri, 1987).

Although it is not the subject of this study, a brief review of the literature on money lenders seems in order. The literature on traditional money lenders is scanty, the only study being that of Mauri (1987, pp. 13-16); what follows draws heavily from this study. The money lender (known as *arata-abadari*) has been active in Ethiopia for centuries and until the beginning of the twentieth century represented the only source of loans. Condemned by the church, outlawed by the state and frowned upon by society, the money lender kept his financial dealings secret and kept no account open to scrutiny. With the adoption of socialism[3] as a declared guideline of the government, the money lender has increasingly gone underground. Nevertheless, the crippling of the official economy has created a thriving market for the money lender. Mauri noted:

> In the towns, reduced lending by the financial institutions has created a potential for the development of informal lending because even persons who in the past were familiar with bank credit now turn to money-lenders to replace bank loans (1987, p. 14).

Prior to 1974, money lenders were often rich landowners. Today, following the nationalization of land, landlords have disappeared as a social class, and their roles as money lenders are being replaced by rich traders. The financial operations of money lenders are simple, cost-effective and flexible compared to those of the banking system. Interest rates, which are never stated in the agreement made with the borrower, are influenced by the extent of personal relations, degree of risk involved, availability of funds in the community, length of the maturity period and extent of competition from the formal financial market (Mauri, 1987, pp. 13-16). There is no adequate information on the size of the interest rate. According to a survey undertaken some years back, it ranged from a minimum of 24% to a maximum of 900% per year (Mauri, 1987, p. 15). The bank's lending interest rate varied from 4.5% to 9.5% per year depending upon the type of project and borrower (whether co-operative, state enterprise or individuals).

In some cases, the credit market, as noted by Mauri, is interlinked with the product market.

> According to widespread custom in certain agricultural districts of Ethiopia, for example, in the coffee-producing districts around Jimma and Gore, the merchant-lender pays the cultivator a sum of money which represents both a loan and an advance payment for the purchase of a given quantity to produce after the next harvest. The unit price is established by the merchant-lender in the advance payment on the basis of the price of the previous harvest or of the estimated price of the next one, duly discounted (1987, p. 16).

II The *iqqub*

Introduction

The *iqqub*, an institution which has remained the preserve of anthropologists and sociologists (Asfaw Damte, 1958; Comhaire, 1966; Baker, 1986), has received little attention from economists. The only serious economic analysis of the *iqqub* is that by Mauri (1987). The purpose of Section II is to identify and characterize the different types of *iqqub*, explain household characteristics of participants of *iqqub*, characterize *iqqub* in rural areas and identify the linkage between *iqqub* and other financial institutions. The economic importance of the *iqqub* is further established on the basis of empirical evidence. This is important because some people doubt the economic importance of the *iqqub*. For example, Comhaire (1966) asserted that: 'On economic grounds, the *iqqub* can hardly be regarded as a productive institution. It satisfies a spirit of gambling, rather than that of true saving'. This section focuses on the following questions: Does the *iqqub* involve genuine savings? How are the relative and absolute size of contributions to the *iqqub* affected by household characteristics? Are there distinct types of *iqqub*? Do all participants benefit equally from involvement in the *iqqub*? Is *iqqub* money used for productive purposes? How is the *iqqub* characterized in the rural areas?

In the literature, the *iqqub* is conceived as a form of traditional savings institution. Levine (1972, p. 278), for example, described it as a form of saving association in which weekly or monthly payments of a fixed sum are exchanged for the privilege of receiving a large sum at some point in the life of the group. To Mauri (1987, p. 8) it belongs to the type of traditional financial institutions which are included under savings associations. Still others (Baker, 1986, p. 163) describe the *iqqub* as a saving club combining a bank and lottery. These descriptions suggest that the *iqqub* is a savings association where each member agrees to pay periodically a small sum into a common pool so that each, in rotation, can receive one large sum. All savings and loan associations with a rotating fund 'have savings as a core feature', according to Miracle *et al.* (1980).

The credit aspect of the *iqqub* can be treated within the framework of financial intermediation. The economic logic underlying the widespread use of the *iqqub* can be approached in two ways. The traditional approach analyses *iqqub* in the framework of financial intermediation as it is the case with similar Rotating Savings and Credit Associations (ROSCAs). A new approach analyses ROSCAs (and hence the *iqqub*) in terms of 'the logic of collective action' (Callier).

According to the first approach, financial transaction is undertaken implicitly through the borrowing and lending activities of the participants. With the exception of the last recipient, all others borrow from each other for a varying period of time but borrow at zero interest rate (a negative interest rate if there is inflation). Opportunity cost is involved for those participants having opportunities for investment. The essence of this approach is that:

> all members switch at some point in the cycle from a position of net saver to a position of net debtor, except the first person to collect the kitty (who is a net debtor throughout the cycle) and the last one (who is a net creditor throughout) (Callier).

This approach is common in the literature (e.g., see Miracle *et al.*, 1980). Although logically valid, the approach does not fully explain the emergence and specific features of ROSCAs in general and of the *iqqub* in particular.

According to the second approach developed by Callier:

> to the participants, the ROSCAs are more like a pooling of resources needed to gain the benefits of some kind of collective action ... than like a combination of contracts involving mutual loans and debt service payments: the logic of the ROSCAs is the logic of collective action, not the logic of the market – hence the idea that interest rate considerations are a secondary aspect of the arrangement, absent from the original concept of the classical ROSCAs.

Focusing on the tontines (meaning ROSCAs in francophone Africa), Callier argued that:

> The creation of a tontine is one of the most obvious Pareto improvements that people who save in order to purchase a bulky asset can create for themselves in a society with fragmented capital market.

The Pareto improvements are seen in terms of the reduction of the waiting time required to purchase a bulky asset:

> The pooling of resources reduces the time of 'waiting' before the purchase for all participants except the one who is last collecting the kitty (who nevertheless does not have to wait more than if he had saved alone).

Callier has stated the implications of this interpretation of tontines as follows:

- The incentive to participate is directly related to the adequacy of the kitty relative to the contemplated purchase;
- There is little incentive to participate in more than one cycle of the same tontine;
- The tontine loses its *raison d'etre* when capital market segmentation vanishes as a result of market integration; access to credit at the prevailing market rate solves the problem of lumpy expenditures.

The *iqqub* has perhaps evolved over centuries out of ancient customary institutions (e.g. community-level labour exchange arrangements), although some writers (e.g. Pankhurst and Endreas Eshete, 1958, pp. 355-56; Comhaire, 1966) attempted to trace its origins to the period of the Italian occupation, 1936-41. Moreover, it is possible that the *iqqub* pre-dates the emergence of the modern banking system in the country.

The organizational set-up and procedures of the *iqqub* are described in detail in Mauri (1987, pp. 8-13), Asfaw Damte (1958), Pankhurst and Endreas Eshete (1958), Aspen (1989) and Comhaire (1966). Only a few points are noted here.

The *iqqub* is based on pre-established social ties. It consists of homogeneous groups: people from the same work place, ethnic background, trade, schooling background or neighbourhood. People from all walks of life, ranging from the rural poor to the urban rich, from shoe-shine boys to high level government officials, participate in the *iqqub*, and the capital contributions vary according to the purpose of the *iqqub* and the economic status of its members (see Baker, 1986, p. 166; Landuber Araya, 1983, p. 64; Comhaire, 1966; Aspen, 1989). In a sample survey undertaken in 1960, it was estimated that 60% of the respondents belonged to one or more *iqqub* (Comhaire, 1966, p. 44). In some cases, *iqqub* may be paid either in kind or in labour as in the case of women's mutual support networks in Wollaita (Dessalegn Rahmato, 1989, p. 20; see also Wibaux, 1986, p. 89; Altaye Alaro, 1991).

The growth of the modern financial sector during the second half of the century did not reduce the importance of the informal financial sector, the *iqqub*. Both sectors have been developing along parallel lines. The recent attempt by the Insurance Corporation to sell policies to *iqqubs* has utterly failed.[7] Why do people prefer *iqqub* to the formal financial sector? According to Arnaldo Mauri (1987), the major reasons are the following:

- The intimate integration between the financial services offered by the *iqqub* and the strengthening of the ties of solidarity and friendship in the group;
- The forced savings of a contractual nature;
- The provision of credit services particularly suited to the needs of the participants and the flexibility and adaptability of the *iqqub* to various situations and needs;
- The low risk of default;
- The low or practically non-existent costs of administration and transactions;
- The absence of minimum investment threshold;
- The probable tendency to gamble on the part of the members and the consequent attraction which the lottery holds for them;
- The secrecy which surrounds the *iqqub* and the member's involvement in it.

The *iqqub* in urban areas: cases from Addis Ababa

Table 1 presents the results of the sample survey of employees of Addis Ababa University. The extent of and reasons for participating in *iqqub* are discussed below. An average of 48% of the sample employees (n = 162) reported that they currently participate in *iqqub*. The responses to the questions 'why do you join the *iqqub*?' and 'why do you prefer the *iqqub* to the banking system?' are revealing. Respondents gave different answers to the open-ended questions. Most of the respondents reported that the *iqqub*, *vis-à-vis* the banks, facilitates forced saving by imposing self-discipline on the saver. One respondent, for example, stated:

> My monthly income is low. I am ashamed of going to the bank with a small sum of money. Moreover, I procrastinate until I discover that I have no more savings to deposit in the bank. On the other hand, the *iqqub* imposes self-discipline on me.

Another respondent said:

> I do not have time to go to the bank and deposit my savings. Banks are located far away from where I live or work. I have never paid much attention to the question of depositing my savings in the bank.

Table 1 *Iqqub* participation: employees of Addis Ababa University

Variables	Low income	Medium income	High income	Average
Av. income per household (birr)	219	737	1,738	890
Per cent of sample participating in *iqqub*	41	48	56	48
Av. contribution to *iqqub* per member per month (birr)	53	123	194	123
Av. number of *iqqub* per person	1.3	1.4	1.4	1.4
Av. contribution as % of av. household income (birr)	24.2	16.7	11.2	17.4
Av. contribution as % of per capita income (birr)	96.2	61.7	48.5	68.8
Number of participants (members) per iqqub	11	10	13	11.3
Total collections (kitty) per *iqqub* (birr/person)	396	1,247	2,314	1,319
Per cent of samples reporting no deduction from kitty	95	96	94	95
Per cent of respondents depositing *iqqub* money in banks	9	33	39	27
Per cent of respondents borrowing money from banks	24	26	59	36
Av. amount of money borrowed from bank (birr/person)	4,457	21,429	21,072	15,653
Per cent of samples settling bank debt with *iqqub* money	0	0	9	-

Source: survey of employees of Addis Ababa University.

A number of respondents indicated that they may squander their bank savings on trivialities. *Iqqub* money comes at the right time and in large quantity; the chances of squandering it are limited. Timeliness is one advantage that is mentioned many times. Some respondents also reported that they get interest-free loans from the *iqqub*. Some reported that they do not have enough information about the banking system. There are those who said that bank operations involve bureaucratic procedures.

A number of respondents stressed the social aspect of the *iqqub*. A person in financial difficulties could ask friends to set up an *iqqub* for him and surrender the first lot to him. A person refusing to co-operate with a needy friend or work-mate may incur rejection by the community. That is perhaps why one respondent said, 'I am forced by my friends to join the present *iqqub*.' To summarize, the main points the respondents raised in favour of the *iqqub* are timeliness, self-discipline in saving a large sum of money, simplicity, flexibility, accessibility and fulfilment of social obligations.

Certain interesting patterns are observed regarding the savings behaviour of samples from different income groups. The extent of participation in the *iqqub* (averaging 48%), systematically increased with income while the proportion of income allocated to the *iqqub* systematically fell as income rose (Table 1). Of the low-income group, 41% of the sample employees participate in the *iqqub*. The corresponding ratio for the medium-income and high-income groups is 48 and 56%, respectively. However, average contributions to *iqqub*, as a percentage of household income, systematically dropped from 24% for the low income group to 11% for the high-income group. Similarly, average contributions to *iqqub* as a percentage of per capita income dropped from 96% in the low-income group to 48% in the high-income group. This result is consistent with findings regarding the village-level study (see below). However, average contributions per participant systematically increased from birr 53 for the low-income group to birr 194 for the high-income group.

It has been observed that a person sometimes participates in more than one *iqqub*. The average number of *iqqub*, which is non-responsive to changes in the income level, was 1.4. This finding is again similar to our findings in the village study (see below).

More than 70% of the respondents reported that they participate in monthly *iqqubs* at the work-place (Addis Ababa University). The number of participants per *iqqub*, which averaged 11 persons, is very small compared to big traders' *iqqub* and village-level *iqqub*.[8]

The total collections per *iqqub*, averaging birr 1,319, systematically increased from birr 396 in the low-income group, to birr 2,314 in the high-income group. An average of 95% of the responding sample employees reported that there were no deductions made from the kitty. The remaining 5%

reported that they surrender a portion of the kitty to the group and the money is used to cover expenses on drinks.

The relationship between the *iqqub* and banks was also investigated. The use of banks by those who participate in the *iqqub* increased with income. Of the participants of *iqqub* who responded to the question, 'have you ever deposited *iqqub* money in the bank?', an average of 27% responded positively. This proportion systematically increased from 9% for the low-income group to 39% for the high-income group. Reasons for depositing the kitty in the bank are also given. Most of the respondents reported that they keep their collections in the banks as a reserve for precautionary purposes. The second important reason was the desire to get interest and thus to augment their bank deposits. Another important reason mentioned was the non-coincidence of the time of collecting the kitty and the time of the planned expenditure. That is, bulky assets or other materials may not be available at the time of collection of the kitty. Moreover, expenditure on such items as building of a house is not a one-time act; expenses are incurred in small amounts over time. The kitty is kept in the bank either wholly or partially, for a few months.

Participation in the *iqqub* does not necessarily preclude a person from borrowing from the banks. Of those participants who responded to the question, 'have you ever borrowed money from bank?', 36% responded positively. The proportion of borrowers in the total number of respondents systematically increased from 24% in the low-income group to 59% in the high-income group. The amount of money borrowed from banks, averaging birr 15,635 per person, increased from birr 4,457 in the low-income group, to about birr 21,000 each in the medium and high-income groups. The single major reason for borrowing money from the banks is to build a private house. A small *iqqub* does not cover the costs of a modest house, although it may complement bank loans. The *iqqub* is generally used for the purchase of durables, payment of school fees, clothing, etc.

The participants of *iqqub* were also asked if they ever settled a bank debt with *iqqub* money. Of the low and medium-income groups, none has done so. The proportion for the high-income group was 9% of those who responded to the question.

One of the results of this study, that the proportion of income allocated to the *iqqub* falls as the latter rises, can be compared to other survey results (Table 2). The information given in Table 2 suggests that a rise in per capita income is invariably associated with a fall in the proportion of income allocated to the *iqqub* and similar voluntary associations. Does this suggest that the *iqqub* is a necessity for poor households?

Table 2 Monthly contributions to *iqqub*: groups in Debarech Town

Occupation	Average income per month ($)	Average contribution per month ($)	Contributions as % of income
Tela sellers	11.73	2.75	23.4
Farmers	21.68	4.60	21.2
Retired pensioners	31.27	2.59	8.3
Municipal employees	77.90	2.31	4.2
Policemen	99.58	2.00	2.0
Teachers	219.17	6.47	2.9

Source: Baker, 1986, p. 166.

The big traders' *iqqub* is often fraught with secrecy. The author has encountered difficulties in collecting information about this type of *iqqub*. Three of the prospective informants that the author approached through friends not only declined to co-operate but were also furious at the idea. It was with great difficulties that data were gathered on the three case studies.

Big traders

The specific features of the big traders' *iqqub* are as follows. The total collection is very big. There are cases where the kitty amounts to a quarter of a million birr. The number of participants is high and the life of a cycle is very long. Membership is limited to a certain section of society, businessmen in particular. It is believed that most of the big traders' *iqqubs* are located in the market centre of Addis Ababa, the Mercato area. The lives of such types of *iqqubs* are quite long; they have a low degree of mortality. All members may not know each other; it is enough for a newcomer to be known by five or six participants who provide information regarding his credit-worthiness and also act as guarantors for him. The system of determining the order of rotation takes into account one of the basic economic principles, *viz*., the principle of opportunity costs of using a resource. They make extensive use of the banking system. The costs of transactions involving remuneration of officials and miscellaneous expenses are relatively high. Though basically business-orientated, the social interactions among members are strong.

Compared with other types of *iqqub*, the big traders' *iqqubs* are relatively institutionalized, complex and well-organized in terms of their procedures and lives. They operate on the basis of elaborate written by-laws. The following case studies illustrate the propositions given above.

Case Study One. The first case study concerns perhaps the oldest *iqqub* in Ethiopia: the first cycle was initiated 45 years ago by Memhirie Wolde-Mariam, a clergyman from the Gurage ethnic group. Membership during the formative years of this *iqqub* was limited to 25 to 30 persons contributing from birr 1 to 3 each per week. Every time one cycle is terminated, another one starts afresh. The present cycle, initiated in September 1989, consists of 170 members contributing birr 500 each per week. The total weekly collections amounted to birr 85,000 per winner. In addition to the birr 500, members contribute a further birr 10 every week. This fund is used for two purposes: 85% is deposited in the bank as reserve in the account of the president of this *iqqub*. The reserve fund is used as a supplementary fund required to cover shortfalls arising from possible defaults by members. If there is any money remaining from the reserve fund after meeting emergency requirements, it is distributed among members at the end of the cycle. The remaining portion of the special fund (i.e. 15% of the birr 10 each collected from members each week) is spent on drinks served to members' during weekly meetings. Members also contribute birr 10 each at the beginning of each cycle for the purchase of stationery required for the *iqqub*.

A new member is admitted into this *iqqub* after proving that he is known by at least five members. These persons are expected to be his guarantors. A member collects drawings upon presenting six guarantors. One reason behind presenting such a large number of guarantors is to spread the burden of covering defaults over as many persons as possible. Cases of defaults are, of course, brought to court. It is the duty of the president and the secretary to undertake the necessary litigation. The *iqqub* officials are paid salaries amounting to birr 500 each per month. This sum is roughly equal to the monthly salary of a fresh university graduate. Money required for salaries is raised by 'selling' lots, on a monthly basis, to a needy member. The 'price' of a lot is directly related to the length of the remaining life of the *iqqub* in a cycle, or to the expected waiting time. The 'price' ranges from 10 to 5% of the total collection. For example, a member who wants to 'buy' a lot at the beginning of the cycle pays birr 8,500 (10% of 85,000) while a member who wants to 'buy' it at the end of the cycle 'pays' birr 4,250 (5% of 85,000). It is also interesting to note that those members who collect the kitty late in the life of the *iqqub* are compensated; all members, except the first ten, are entitled to a premium of birr 500 each (in addition to the 85,000). The premium is covered by collections from the 'sales' of *iqqub*. It should also be noted that a member winning a lot can 'sell' his lot to a needy participant.

This *iqqub* has also a type of rudimentary insurance scheme in the form of *iddir*. In the event of the death of a member, all other members raise special funds and provide financial assistance to the family members of the deceased. A member whose business enterprise is destroyed by fire is entitled to immediate collection of the kitty free of charge.

The money collected from this *iqqub* is used either for the establishment of a new business enterprise or for the expansion of existing ones. The kitty is often paid through the banking system with the president giving a cheque to the beneficiary.

Case Study Two. The case of the second big traders' *iqqub* is as follows. There are 120 members contributing birr 404 every weekend. The total collected per week amounts to birr 48,484. The *iqqub* officials, numbering four, are paid a sum of birr 400 per week as a whole. The salary of the officials is raised by making deductions from the total collections of a member. A participant in need of money may 'buy' a lot. The 'prices' of a lot are again directly related to the length of the remaining waiting time. They ranged from 10% at the beginning of the cycle to 3% at the end of the cycle. The kitty is deposited in the bank until winners cash the cheques they receive from the president.

This *iqqub* has encountered some problems of default. A member may not to pay his dues as a result of business failure or for other reasons. In that case guarantors are obliged to cover the default. However, the winner can collect the kitty on time as the shortfalls are reimbursed from the funds accumulated from the 'sales' of lots. The kitty could be kept in the bank for quite a long time in cases where a winner is unable to present the required number of guarantors.

Case Study Three. The third big traders' *iqqub* consists of 41 members contributing birr 2,000 per month. The life of a cycle is thus 41 months. The total collection per month amounts to birr 82,000 per winner. But, about birr 61 are deducted from the total collection and are used to cover expenses on drinks served to members attending the monthly meetings. In addition to the birr 2,000, members also contribute birr 50 each per month. This special fund is used to cover miscellaneous expenses. One such expense is the premium granted to the last person collecting the kitty. This person is not lending money to others at zero interest rate; he is compensated consistently with the simple economic principle that money has opportunity costs. However, a considerable portion of that special fund is paid to the president and the secretary in the form of salaries.

The kitty is often deposited in the bank and the winner is given a cheque. The two major reasons behind this practice are that a winner may not get a guarantor on the day of collection of the *iqqub* and it is safer to keep such a large some of money in the bank. Cases of robbery of *iqqub* funds are common. There are also cases of winners being paid in cash in lieu of cheques because the president of the *iqqub* may not have a cheque at the time of drawing lots, and, moreover, some winners may not have confidence in cheques.

Needy members may 'buy' the pool every third month. During the first half period in the life of the *iqqub*, the selling price (payments required for transferring the pool to another participant) is 8% of the total collection. Then, the rate is progressively reduced until it is the turn of the last person who obviously gets his collection without payment and without a guarantor. It is interesting to note that the rate at which a participant 'buys' a lot is presumably less than the rate of return on the investment to which the kitty is put. A portion of earning from 'sales' of a lot is used to cover shortfalls arising from defaults. Any remaining funds are distributed among all members at the end of the life of the cycle. Until then, the money is deposited in the bank in the personal account of the president.

The screening process and admission requirements are strict. A necessary condition to be admitted to this *iqqub* is ownership of big property or especially the ownership of a business enterprise. A winner collects the kitty upon presentation of three to five guarantors. A winner who is unable to present guarantors could collect the kitty only at the end of the cycle. Guarantors covering defaults are granted priority in 'buying' the pool.

The first cycle of the present *iqqub* was initiated around 1977. The termination of one cycle is followed by the beginning of another. There is often a lapse of time between the initial collection of contributions by the president and the drawing of the first lot; it takes time until the required size of membership is met and until all members pay their first contributions. In the meantime, the collections are deposited in the bank in the personal account of the president.

The officials of the *iqqub* are interested in the re-start of another cycle. Therefore, they try to promote a good image of their own *iqqub* among the participants. For example, at the end of each cycle they hold a great feast for all the participants and distribute all residual funds available. This point suggests that a sort of competition exists among *iqqubs* in attracting new members or retaining old ones.

Members appreciate the relative advantages of the big traders' *iqqub*. For example, a member of this *iqqub* told the present writer that he was able to buy a truck and later a bungalow with *iqqub* money. He also said that *iqqub*, unlike a bank, imposes self-discipline in saving a large sum of money.

Small traders

A small traders' *iqqub* is set up by people engaged in small-scale business. This type of *iqqub* is common among people working in the informal sector. Membership is also open to salary and wage-earners. The kitty is of a small size. Unlike the big traders' *iqqub*, membership is often limited to people living in a neighbourhood.

The case study *iqqub* is located in the midst of an area dominated by weavers. It was established more than nine years ago by neighbouring dwellers. Initially, the contribution per participant was birr 2 per week. Membership is not fixed; it rises and falls from cycle to cycle. Presently, there are 52 participants contributing birr 12 each per week. Those who lack the means to contribute birr 12 per week can pool resources and pay the full sum. The kitty amounts to birr 624. Every time one cycle is terminated, another one is started by more or less the same people participating in the previous one. The president and the secretary are paid birr 6 each per week. During the last eight years, they have taken two cases of default to court. For the last five years, the office of the secretary has been held by a school teacher. It is with money he got from this *iqqub* that he built a kitchen for his house. This *iqqub*, like big traders' *iqqubs*, operates on the basis of a written by-law.

The *iqqub* in rural areas

The *iqqub* is not limited to urban areas; it is also common in the rural areas though perhaps practised to a lesser degree. A national rural household survey by the Central Statistical Office (CSO) shows that the annual contribution to *iqqub* per household is birr 18.9 (Table 3). The per capita annual contribution is birr 3.75. The proportion of the annual household income allocated to the *iqqub* is 0.96%. On the other hand, the proportion of bank deposit in the annual household income is reported to be 2.04%. No clear-cut pattern has been observed regarding the relationship between household income and contributions to the *iqqub* ($R^2 = 0.2$). This may be due to defects in the data base of the CSO survey. On the other hand, the survey suggests that the bank saving rates rise with broad income categories (see Table 3).

Table 3 *Iqqub* contributions, bank deposits and income in rural areas

Income group (birr/year)	*Iqqub* per hh (birr/year)	*Iqqub* person (birr/year)	*Iqqub* as % of income	Bank deposit as % of income
0 - 199	1.02	0.34	0.28	0.04
200 - 299	5.79	2.21	1.87	0.25
300 - 399	1.18	0.37	0.15	0.45
400 - 499	5.71	1.55	0.99	0.73
500 - 599	4.23	1.05	0.61	0.95
600 - 699	5.77	1.47	0.61	0.70
700 - 799	4.51	1.11	0.49	1.90
800 - 899	6.87	1.59	0.71	1.50
900 -1099	9.96	2.19	0.75	0.99
1,100-1,299	9.68	2.03	0.61	1.23
1,300-1,499	11.57	2.26	0.57	1.24
1,500-1,699	15.48	2.85	0.73	1.10
1,700-1,899	18.74	3.40	0.89	1.70
1,900-2,299	18.64	3.22	0.78	1.83
2,300-2,699	21.93	3.59	0.76	2.92
2,700-3,499	97.01	15.73	2.63	2.83
3,500-4,299	28.31	4.30	0.70	3.10
4,300-5,099	15.37	2.33	0.38	2.94
5,100-5,899	21.92	3.63	0.58	1.50
5,900-6,699	8.85	1.20	0.20	4.82
6,700-7,499	48.88	5.51	0.98	8.90
8,000 +	39.46	5.56	0.48	4.65
Average	18.92	3.75	0.96	2.04

Source: CS0, 1988.

One shortcoming of the CSO Survey is that it did not take into account the relationship between the *iqqub* and household socio-economic characteristics. The following case study of a village addresses this and related problems.

Sina-Debre-Sina Village[9] (Peasant Association), the case study village, is located along the Addis Ababa-Dessie highway in Mafoud Woreda. The total number of member households of the Peasant Association was about 168 in 1989. About 48 of them belonged to a co-operative farm named Gelila Agricultural Producers' Co-operative. Of the total land area amounting to 800 hectares, 131 hectares consisted of high quality land and forest land.[10] The villagization scheme[11] was partially implemented in the peasant association. Some households, for one reason or another, did not move to the new village sites. The major crops grown in this rugged and degraded terrain are, in order of importance, horse beans, teff, field peas, wheat, barley and maize. Crop yield is extremely low. The village is a typically poor area in North Shoa.

The data for the present study was generated through a household survey covering about 50% (n = 144) of the active farm households of the village.[12] The reference period of the study was the agricultural year 1988-89.

During the survey period, there were three separate *iqqubs* in the Sina-Debre-Sena Peasant Association. The weekly contributions per participant were birr 2 in each case. It was possible for a participant to get his (her) name registered as a member more than once depending upon his (her) ability to save. It was also possible for a person who could afford only birr 1 to join with another person to register as a member.

Of the three *iqqubs* found in the area, the biggest one had 205 'members' of whom 79% were from the Sina-Debre-Sina Peasant Association. The length of one cycle was about four years. The weekly pool was birr 410. The second *iqqub* had 74 'members' of whom 39% were from the same peasant association. The pool amounted to birr 148 per week. The third *iqqub* had 60 'members' of whom 50% were from the same peasant association. The kitty amounted to birr 120 per week. It is interesting to note here that three separate *iqqubs*, with total weekly funds of birr 678, operate in a poor village consisting of not more than 160 households living in a mountainous area of less than 800 hectares.

All three *iqqubs* have written by-laws which define the procedure of the *iqqub* and the duties of the participants. The by-laws of one of the *iqqubs* have the following provisions. A winner should bring two guarantors upon receipt of the pool. Any participant failing to present guarantors is bound to collect his share at the end of the life of the cycle. Similarly, a participant with any defaults should collect the pool at the end of the life of the cycle. Deductions amounting to birr 5 per week are made from the pool as payment to the secretary and the president. Priority in collecting the pool is given to these officials. A participant in need of money could get the pool by paying birr 3. This is possible only once a month but a participant with serious financial difficulties (e.g. difficulties arising from the death of an ox) is entitled to the collection of the pool free of charge. This point suggests that *iqqub* involves not only business (money) relations but mutual assistance in time of difficulties (see *iddir* below).

The household survey revealed that 50% of the sample households participate in *iqqub*. The weekly contributions amounted to an average of birr

2 per household. The two major purposes for joining *iqqub* are consumption and investment objectives (see Table 4). Here it is interesting to note that although consumption purposes are mentioned most of the time, investment purposes are mentioned 35% of the time in a poor village where people live a hand to mouth existence.

It was also reported that *iqqub* is sometimes used for a totally different but interesting purpose. *Iqqub* itself is pledged as a security to a non-member creditor who has a claim on a member. This involves a written agreement by the president of the *iqqub* to the effect that he would reimburse the creditor from the kitty accruing to the member in the event of default.

Table 4 Purpose for joining *iqqub* in the study village

Purpose	Number of times a purpose is mentioned		Per cent	
Consumption	39		57.4	
Purchase clothes		21		30.8
Purchase food		7		10.3
Miscellaneous		11		16.2
Investment	24			35.3
Crop production		16		23.5
Purchase livestock		5		7.4
Education of children		3		4.4
Payment of compulsory contributions	5		7.4	

Source: Village Household Survey

The relationships between the types of peasant organizations and household characteristics, on the one hand, and the *iqqub*, on the other hand, are indicated in Tables 5a and 5b. The degree of participation in *iqqub* is the same for both villagized and non-villagized households. However, contrary to the theoretical expectation that households with higher economic status have a higher average propensity to save, the villagized households, in spite of their higher economic status, contribute less (birr 1.90 per household) to *iqqub* than the villagized

Table 5a Relationship between participation in *iqqub* and type of peasant organization in the study village

Peasant organziation and type of household	Total number of sample hhs	Participants in *iqqub*	Per cent participating in *iqqub*	Average contribution in *iqqub* (birr/hh/week)
Villagized households	65	33	50.7	1.90
Non-villagized households	12	6	50.0	2.20
Members of co-op. farm	42	22	52.4	1.50
Non-members of co-op. farm	35	17	48.6	2.60
Male-headed households	67	32	47.8	1.90
Female-headed households	10	7	70.0	2.10

Source: Village Household Survey

Table 5b Contributions to *iqqub* and household characteristics in the study village

Peasant organization and types of household	Average household size	Average age of the house-hold head	Average total land holding (ha/hh)	Average annual crop output (kg/hh)	Value of annual crop out-put (birr/hh)	No. of livestock (TBU/hh)	Average value contributions to *iqqub* (birr/hh/week)
Villagized	6.00	53.00	1.17	331.00	115.20	4.20	1.9
Non-villagized	6.30	52.00	1.15	262.00	91.40	3.80	2.20
Member of co-op. farm	6.40	56.00	1.34	380.00	132.60	4.70	1.50
Non-member of co-op. farm	5.50	49.70	0.96	249.00	86.20	3.40	2.60
Male-headed hhs	6.20	54.10	1.21	327.00	114.30	4.40	1.90
Female-headed hhs	5.20	47.00	0.93	276.00	92.50	2.70	2.10

Note: value of output was estimated by using the Agricultural Marketing Corporation's purchase prices for 1988/89.
Source: Village Household Survey.

ones (birr 2.20 per household) (see Table 5b). Two of the major indicators of the household economic status are volume of crop output (331 kg for villagized *versus* 262 kg per household for non-villagized households) and number of livestock (4.2 Tropical Bovine Units – TBU – for villagized *versus* 3.8 TBU for non-villagized households) (Table 5b). Interestingly enough, the same pattern of saving behaviour is reported with respect to the other categories of household (i.e. members and non-members of the co-operative farm and male-headed and female-headed households). Members of the co-operative farm, despite their high participation in the *iqqub* (52.4% *versus* 48.6% for non-members), contributed only birr 1.5 per household per week against birr 2.60 for the non-members. In contrast, members of the co-operative farm, with 1.34 ha of land per head (non-member = 0.96 ha), 380 kg of food grains (non-members = 249 kg) and 4.7 TBU of livestock (non-members = 3.4 TBU) appear to be 'richer' than the non-member (private) peasant households. Similarly, female-headed households, though invariably poorer than the male-headed households, save more in the form of *iqqub* (see Table 5b). In fact, the highest level of participation (70% *versus* an average of 50%) is reported by women (Table 5a). Women do not have enough land and labour to depend wholly on farming activities. They resort to the preparation and sales of local spirits and beer for survival. They tend to save a portion of their meagre incomes in the form of *iqqub*.

Summary and conclusion

The preceding pages have attempted to identify and characterize the distinct types of *iqqub* that exist in Ethiopia. Each type of *iqqub* has its own specific features. The big traders' *iqqub*, for example, is different from other types of *iqqub* in many ways. First, it has strong linkages with the banks. Second, its operations are based largely upon the logic of the market; it is business-orientated. Third, it has developed sophisticated mechanisms for compensating those members with longer waiting time for collecting the pool. Fourth, its transaction costs are considerable. Fifth, its operations are quite complex, formalized and institutionalized. However, it still maintains its cultural appropriateness. For example, elements of the *iddir* are involved in its operations.

The extent of participation in the *iqqub* is affected by household characteristics. For example, poorer households have access to the *iqqub* and not to the banks. Better-off households use the banking system more than poorer ones. People from different age groups and levels of education participate in the *iqqub*.

The relative advantages of the *iqqub* over the banking system have been identified. The sample participants stressed the importance of self-discipline, timeliness, flexibility and collective action arising from participation in the *iqqub*. The study has thus largely confirmed Mauri's (1987) observations regarding the relative advantages of the *iqqub*.

The study suggests that the *iqqub* does make economic sense. Those who doubt the economic importance of the *iqqub* should have a second thought. There are no indications that the *iqqub* involves a spirit of gambling apart from the eagerness to get the waiting time reduced. The study suggests that people join *iqqub* not to satisfy their gambling spirit but to meet clearly defined financial and social obligations.

The *iqqub* is not limited to urban areas only. Even the rural poor have savings potential. The *iqqub* could be used as a launching pad for savings mobilization schemes (such as savings and credit co-operatives) in the rural areas.

The study has revealed that a person can participate in more than one cycle of a given *iqqub*. In other words, there may be incentives to participate in more than one cycle of the same *iqqub*. It is also possible for a person to participate in more than one *iqqub* at any given time.

The study suggests that an increase in the size of the *iqqub* is associated with an increase in the costs of transactions, strengthening of the linkage with the banking system, improvement in economic rationality and business orientation of the *iqqub*, and formalization and institutionalization of its procedures and operations.

This study has cast doubt upon some sweeping generalizations often made about the *iqqub*. These are:

- All members do not benefit equally;
- It is meant only for a short period and therefore does not involve savings;
- The pool is used for consumption purposes only;
- It is based upon a spirit of gambling;
- Members borrow from each other at zero interest rate;
- There is no incentive to participate in more than one cycle of the same *iqqub*.

The study has revealed that not all of these assertions are necessarily valid.

III The *iddir*

General considerations

The *iddir* is an informal financial and social institution that is almost ubiquitous throughout Ethiopia. However, it is little investigated from the economic point of view. For example, there is no empirical evidence concerning the relationship between the *iddir* and the banking system. Other areas which need closer investigation are the distinction between different types of *iddir*, household characteristics of the participants of *iddir*, comparison of *iddir* in urban and rural areas, and recent emerging features of *iddir*. This section treats these and related points.

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

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

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

The expansion of the *iddir* in urban areas is perhaps associated with growing social insecurity. Salole (1986), for example, noted that: 'One of the most significant survival strategies or coping mechanisms adopted by Ethiopian urban populations is recourse to *iddirs* and *iqqubs*'. It has been observed that in Addis Ababa the *iddir* has been growing at a fast rate. Salole (1986) estimated that over a half of Addis Ababa households were members of *iddirs* in 1986. Other estimated numbers of *iddirs* in Addis Ababa were 395 in 1969, 600 in 1973 and 1,213 in 1983 (Mekuria Bulcha, 1973; Landuber Araya, 1983, p. 75). The case of one *iddir* is more illuminating; it was established by three elders in 1948 with contributions per member amounting to 10 cents per month. Six months later, contributions were raised to 25 cents and payments to survivors of a deceased member were fixed at birr 50. By 1973 contributions were raised to birr 1 and assistance to families of a deceased member to birr 150 (Aleme Feyissa, 1973).

Originally, membership in *iddirs* was limited to the poor (Mekuria Bulcha, 1973, p. 14). However, in recent years, people from the higher income group are also increasingly participating in this almost ubiquitous self-help organization. In particular, *iddirs* among friends and relatives have been expanding rapidly in recent years.

The risks covered by *iddirs* include funeral expenses, financial assistance to families of the deceased and, in some cases, coverage of other risks such as medical expenses, losses due to fire or theft, etc. Almost every *iddir* has its own by-laws specifying the duties and rights of members, procedures and functions of officials.

Social ties are very important in *iddirs*. A member is required to attend meetings, be present at funeral ceremonies, visit the sick, etc. The by-laws of *iddirs* are observed because of powerful social sanctions and fines.

Members' contributions vary from one *iddir* to another. Most of the common fund is deposited in the bank[13]; only a small sum of money is kept with the officials for emergency purposes. Most *iddirs* have their own tents, benches or chairs, utensils, etc. These materials are used mainly in the event of the death of a participant's family member.

It is possible to distinguish between four types of *iddir*:

1. Community or territorial, referring to people living in the same vicinity;
2. Work-place or occupational, referring to people working in the same institution;
3. Friends' *iddir*, referring to former schoolmates or people having close friendship;
4. Family *iddir*, involving blood relatives or very close friends.[15]

The functions of *iddirs* are not limited to the provision of insurance and psychological support to its members; *iddirs* are often involved in community development programmes such as construction of roads or schools, and installation of public utilities etc. (e.g. see Mekuria Bulcha, 1973; Aleme Feyissa, 1973).[16] The *iddir* is considered an excellent vehicle for the state to gain direct access to the urban population (Salole, 1986). However, attempts at effective mobilization of resources through *iddir* for community development have not yet succeeded (Hamer, 1976; Cohen and Koehn, 1980, pp. 166-67), although such attempts were initiated as early as 1972 when the first seminar was convened for this purpose by the then Ministry of

Community Development and Social Affairs (Mekuria Bulcha, 1973). Similar attempts by the Insurance Corporation to integrate both *iddir* and *iqqub* with the formal sector have not yet succeeded. It has been observed that 'despite the abundance and vitality of these institutions the development agencies appear to have overlooked them as partners or tools in their work' (Salole, 1986).

Iddirs can establish bank accounts in their names only upon presentation of a document certifying that they are registered with the Ministry of Internal Affairs. Since only a few of them (community *iddirs*, in particular) do register with the said Ministry, perhaps due to bureaucratic tangles involved, the bulk of them set up bank accounts in the names of their officials.

Iddirs are provided with little legal protection. Problems of embezzlement and corruption are often reported, as well-depicted in Mamo Wudineh's (1989) novel. Each *iddir* has its own by-laws and book-keeping system, and no attempt has so far been made to systematize them.

The *iddir* in urban areas: cases from Addis Ababa

A survey of a sample of 32 *iddirs* in Addis Ababa was undertaken in order to examine the structure of the *iddir* and its linkages with the banking system (see Table 6). Various types of *iddir* are identified and characterized.

It has been observed that community (territorial) *iddirs* are the oldest type. The average age of the sample community *iddirs* was 26 years. Of the sample community *iddirs*, the oldest one was established in 1941, immediately following the end of the Italian occupation of Ethiopia. This *iddir* initiated operations with 40 to 50 members each contributing 10 cents every month. Presently, this *iddir* consists of 305 members contributing birr 3 each per month. Next to the community *iddir*, work-place (occupational) *iddirs* are the oldest ones. The average age of the sample is 15 years. In contrast, friends' and family *iddirs*, which are growing at a fast rate[17], are of recent origin. From the sample, the former averaged 10 years and the later six years.

The average number of members for the sample *iddirs* is 246. Work-place *iddirs*, followed by community *iddirs*, are the largest in terms of membership. Work-place *iddirs*, with bank deposits averaging birr 33,551, are also the largest in terms of total financial assets. Friends' *iddirs* and family *iddirs* are of small size. However, they have the highest contributions per member, and they also have the largest bank deposit per member. Financial assistance to family members of the deceased member, averaging birr 890, is highest in work-place *iddirs*. Registration fees for all types of *iddir* average birr 73 per new member. Bank deposits, which average birr 108 per member, are highest in family *iddirs*. Bank deposits, as proportions of the total financial assets,

Table 6 The structure of *iddir* in Addis Ababa

Variables	Community *iddir*	Work-place *iddir*	Friends' *iddir*	Family *iddir*	Average
Sample size	14	6	6	6	
Av. age of *iddir* (years)	26.5	15.2	10	6.2	241.3
Av. no. of members	291.0	655.2	3.8	15.0	246.3
Av. contributions per member (birr/month)	3.20	3.30	5.00	6.80	4.60
Av. financial assistance to family members of the deceased (birr)	623.20	2,128.30	520.00	290.00	890.40
Av. registration fee (birr)	102.90	77.40	42.50	68.80	72.90
Av. size of bank deposit (birr)	13,847.90	33,550.70	2,955.50	2,310.00	13,166.03
Av. cash at hand (birr)	1,229.20	1,230.40	340.00	236.00	758.90
Av. total financial assets (birr)	14,901.50	35,618.41	3,369.20	3,562.70	14,363.00
Total financial assets per member (birr)	51.20	54.40	169.90	285.00	140.10
Bank deposits as percentage of total financial assets	92.9	94.2	87.7	64.8	84.9
Percentage of *iddir* participating in development efforts	69.2	50	25	0	36.1

Source: survey of 32 *iddirs* in Addis Ababa.

average 85%. The ratio for the community and work-place *iddirs* is more than 90%. Cash at hand, averaging birr 759 per *iddir*, is maintained only for emergency purposes. There is no doubt that *iddirs* keep a large portion of their funds in the banks.

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

A survey of employees of Addis Ababa University closely examined one work-place *iddir* (see Table 7). As high as 90% of the sample employees (n = 162) have not bought insurance policies. The proportion of sample employees having bought insurance policies, which averaged 10%, systematically increased from 3.7 in the low income group to 16.7% in the high income group. An insurance policy is invariably limited to those employees who built their own houses with money borrowed from the Housing and Saving Bank because it is this bank's policy that a borrower should buy a life insurance policy as a pre-condition for receiving the requested loans.

The responses to the question, 'why do you join *iddir*?' are almost the same across the sample. *Iddirs* entitle a person in difficulties to financial and material assistance and bring consolation from members. Compared to the insurance system, the *iddir* is considered a non-profit-making institution catering for the specific needs of a person. The respondents also mentioned the social and cultural aspects of the *iddir*. It provides a wider range of services than the insurance system. It is also culturally appropriate.

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

The results revealed that a person is a member of more than one *iddir*. The average number of *iddir* per person is 2.2 and the average per household is as high as four *iddirs*. Women have their own separate *iddirs* in addition to those they have in common with other family members. Contributions to *iddirs* per person and per household average birr 7.7. and birr 13.8 respectively, per month. It has also been observed that contributions to *iddirs* increase with income. Better-off households are capable of diversifying their financial portfolios.

Table 7 *Iddir* participation: employees of Addis Ababa University

Variables	Low income	Medium income	High income	Average
Proportion of the sample belonging to *iddir* (%)	83.3	83.3	81.5	82.7
Proportion of the sample having insurance policies (%)	3.7	9.3	16.7	10.0
Mean year for joining *iddir*	1979	1980	1981	1980
Av. no. of *iddir* per sample employee	2.2	2.2	2.3	2.2
Av. no. of *iddir* per household	3.6	4.1	4.1	4.0
Av. contributions to *iddir* per sample employee (birr per month)	6.2	8.6	8.4	7.7
Av. contributions to *iddir* per household (birr per month)	10.3	15.7	15.4	13.8

Source: survey of employees of Addis Ababa University.

It has been observed that the most common type of *iddir* for all income groups is the work-place *iddir* followed by the community *iddir*. The Addis Ababa University Employees *Iddir* (AAUI), with total capital amounting to birr 353,000 and 1,900 members, is perhaps the largest work-place *iddir* in the country. Established in 1961, it is also one of the oldest. Of its total capital, birr 250,000 is in the form of equipment and durables (AAU, 1990). It has a busy lounge providing services to the university community.

There are 24 persons working in the lounge. Their total monthly salaries amount to birr 2,400. Income from the lounge is considerable. For example, during the month of May 1990, its gross income from the lounge amounted to birr 23,649.[18] This *iddir* has two vehicles (one of which is a hearse), two tents, a number of utensils, chairs, bar equipment, etc. Usual monthly contributions are birr 3 per member. The registration fee for a new member is birr 150.

The Ethiopian Teachers' Association *iddir* (ETAI) is a special type of *iddir*. Membership is restricted to members of the Ethiopian Teachers' Association. It is perhaps the only *iddir* organized at a national level. The ETAI, with capital amounting to birr 3.6 million and 45,078 members (50% of the total number of teachers in the country), is the largest *iddir* in the country. It grew to such a giant size within just six years. Monthly contributions are birr 5 per member. Almost all of its capital is deposited in banks. Cash in hand is very small. For example, petty cash kept at the national office is a mere birr 500. If it is able to enlist the remaining 50% of the teachers, it could be transformed into a medium-size insurance enterprise. ETAI has encountered some problems. One is the inability of branch offices to be able to transfer legally required funds promptly to the national office; another is the shortage of personnel to do book-keeping, properly administer funds and make timely reports. More serious are members' repeated requests for benefits not provided by the by-laws; these include advance payments for medical examination and transport, benefits to family members and requests for *per diems* in cases where a beneficiary travels to a place in accordance with a physician's recommendations. The ETAI, unlike other *iddirs*, does not provide assistance to the family of a member.

The case of a village *iddir*

Iddirs are not limited to urban areas only. They are also found in rural areas. A village *iddir* was established in Sina-Debre-Sina Village in 1957. During its initial period, contributions per member amounted to 10 cents per month. Today, there are 125 members (households) contributing 25 cents each per month. Since there are no banks even in the nearest towns, this *iddir* keeps its collections with the treasurer. Assistance given to the family members of a deceased member amounts to birr 30. The written by-law of this *iddir* is simple and short; it has three articles only.[19]

Summary and conclusion

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

The *iddir* has virtually no linkage with the insurance system. The Insurance Corporation has failed to attract *iddirs* into its recent scheme which proposed a type of insurance policy to cover members of *iddirs*. Only about 70 *iddirs* have thus far bought insurance policies. On the other hand, *iddirs* invariably have a strong linkage with the banking system. *Iddirs* keep the bulk of their financial assets in the banks. Only petty cash is kept at hand to meet emergency requirements. The sample *iddirs*, on average, deposited 85% of their financial assets in a bank. Bank deposits per member amounted to birr 108. This sum is somewhat greater than the per capita bank deposit which amounted to birr 90 for the whole population.

The study also suggests that in recent years more and more people are participating in *iddir*. New types of *iddir* are increasingly becoming popular among urban dwellers. Bank deposits per member are higher in the newly-emerging types of *iddir*. *Iddirs* in the rural areas seem to be of the community type and cater for the needs of households living in a village.

IV Savings and credit co-operatives (SACCs)

Introduction

Savings and credit co-operatives (SACCs) can be designated as semi-formal financial institutions. They are outside the control of the central authorities with respect to ownership of assets and management. As a semi-formal financial sector, the SACC can establish a link between the informal (the *iqqub* and *iddir*) and formal sector. That is why this study has attempted to undertake a simultaneous study of the SACC and the 'traditional' informal sectors (i.e. the *iqqub* and *iddir*). It has attempted to lay the background for establishing the link between the *iqqub*, *iddir* and SACC.

The SACCs in Ethiopia have recent origins. The oldest ones were established in the late 1960s, and they grew very slowly until 1978. One reason behind such slow growth was the political and social instability which followed the 1974 uprising. SACCs have been growing fast since 1978. However, the rate of growth is not the same for all co-operatives. Some of them are growing at very fast rates.

The SACCs, as potential sources of savings in the country, need serious study. The existing literature is limited to two senior essays at Addis Ababa University which deal mainly with their origins and problems. Otherwise, it can be said that SACCs in Ethiopia are yet untouched by researchers.

Savings and credit co-operatives are also known as credit unions, thrift and credit co-operatives or savings and credit associations. They are defined as follows:

> A thrift and credit co-operative is a free association of people with a common bond who save and lend money to one another at low interest rate for productive and provident purposes. (African Confederation of Co-operative Savings and Credit Associations (ACCOSCA), 1969, p. 3).

> A credit union is a co-operative financial organization owned and operated on a not-for-profit basis by its members according to democratic principles. Its purpose is to encourage savings, to use pooled funds, to make loans, and to provide other related services to

> members and families. A credit union is part of a co-operative financial system and adheres to the operating principles for credit unions as set forth by the World Council of Credit Unions. (ACCOSCA, 1990).

From these definitions it can be inferred that an SACC, generally speaking, has three basic purposes: to promote thrift, to provide a source of credit at a low interest rate, and to teach people the wise use of their money and the efficient management of their limited pooled resources (see also Kibirige, 1980, p. 7).

An SACC has several unique characteristics which promote the self-help, member-owned and directed principles of co-operativism, service to members, social goals and leadership potential of its members. Some of these unique characteristics are discussed by ACCOSCA (1969), Kibirige (1980, p. 15) and ACCOSCA (1990). One characteristic is a common bond. Individuals who have something in common, whether based upon working together, belonging to the same organization or living together in the same geographical areas, know one another. Thus, they have already established a common bond that can be built upon to address economic and social needs. The common bond is necessary to develop mutual confidence among the members to help one another and to trust the decisions made on their behalf by their elected leaders. The different types of common bond are:

- Work-place/employee common bond which is based upon individuals who have the same employer;
- Association common bond which is characterized by individuals who belong to a religious, social or educational group;
- Residential common bond which is based upon a geographical or political sub-division such as a sub-location, district, town or one or more villages.

The basic goal of a savings and credit association is to encourage thrift among its members not to make profit, and not to supply charity, but to provide services. Members are paid dividends on shares and interest on savings/deposits. SACCs grant loans to members who might not qualify for credit elsewhere and who cannot afford the high loan rates offered in either the informal sector or by other types of financial institutions. However:

> The loan committee will refuse a loan applicant if the purpose for the borrowing is not for any worthwhile purpose or it does not improve the member's economic status. The committee has to be careful not to grant loans to members who cannot afford to repay them (ACCOSCA, 1990).

It is said that lending is based upon the 'three Cs' of credit: character, capacity and collateral.

Other characteristics of SACCs are provision of financial services (e.g. financial counselling to members), the principle of 'pay him first' (i.e. realizing that saving for tomorrow is better than borrowing for tomorrow), and developing members' leadership potential, initiative and capabilities to improve their outlook on life. In addition, it should be noted that SACCs are based on the principles of voluntary entry and withdrawal; democratic control; political, racial and religious neutrality.

SACCs are different from banks in that they are owned by all members who have a voice in their operations, whereas banks are owned by shareholders and are generally interested in big loans to rich people. Banks always ask for security, while credit unions consider good character and ability to pay in granting loans.

SACCs are promoted not only for money; they contribute to the promotion of total human development. SACCs develop people's minds by providing motivation, creating initiative, promoting self-development and self-reliance and providing leadership. They also develop material well-being by raising the living standards of members, making possible regular savings and wise use of money, providing loans at low interest rate and by making possible economic emancipation of members (Kibirige, 1980, pp. 18-24).

SACCs originated in Germany in the mid-nineteenth century.[20] Today there are about 78 million SACCs in 80 countries organized under the umbrella of the World Council of Credit Unions (WOCCU) which was established in 1958. ACCOSCA was established in 1968 at a conference held in Nairobi. The status of WOCCU as of 1989 is indicated in Table 8. Of the various affiliates of WOCCU, the Credit Union National Association of America (CUNA) alone accounts for 69% of the total membership and 72% of the total assets of WOCCU. Contributions and savings per member varied from US$139 in Latin America to over US$5,000 in the Caribbean and other regions.

The first savings and credit co-operative[21] in Ethiopia was established in 1964 by employees of Ethiopian Airlines. During the same period, credit co-operatives were established by employees of the Ethiopian Road Authority and the Telecommunication Agency. It is interesting to note that these organizations are among the most modern and relatively efficient enterprises in the country. The Co-operative Societies Proclamation Act No. 241/66 was passed in 1966. Existing co-operative societies were registered under this proclamation with the Ministry of Community Development and Social Affairs. A national promotion committee, known as the Ethiopian Thrift and Credit Co-operative Development, was set up in 1970 in order to promote savings and credit unions in the country. This committee, which was able to host the ninth

Table 8 World Council of Credit Unions, 1989

Affiliate	Credit unions	Members (millions)	Deposits (Contributions and savings) (US$m)	Loans (US$m)	Reserve (US$m)	Assets (US$m)	Deposit per member (US$m)
Africa (ACCOSCA)	5,152	2.3	539.6	384.5	20.7	462.3	234.6
Asia (ACCU)	10,901	3.0	3,663.5	3,117.3	87.2	4,091.9	1,221.2
Australia (AFCUL)	347	3.7	4,955.9	4,418.7	350.6	5,507.0	1,339.4
Caribbean (CCCS)	1,242	4.1	22,204.4	17,088.4	287.0	24,047.1	5,415.7
Canada (CCCU)	465	0.8	584.2	416.1	33.2	595.6	730.2
Latin America (COLAC)	2,364	4.3	600.0	586.8	27.6	858.1	139.5
America (CUNA)	13,690	54.5	167,770.0	123,531.0	8,127.0	184,694.0	3,078.3
Others*	2,365	5.8	31,697.8	28,579.2	1,397.2	34,715.3	5,465.1
Total	36,526	78.5	232,015.4	178,122	10,330.5	254,971.3	17,624

Note: *Free-standing leagues and the Desjardins Group.
Source: WOCCU, 1989.

African Conference on the Mobilization of Local Savings, facilitated Ethiopia's affiliation with ACCOSCA. It contributed to the increase in the number of SACCs in Ethiopia, and it was able to secure assistance from a number of international donor agencies towards the development of SACCs. However, the national promotion committee was not then granted legal status. That was one reason why it was succeeded by the Ethiopian National Thrift and Credit Co-operative Society in 1973. This society was established by the already existing credit unions under the 1966 Co-operative Societies Proclamation Act No. 241. It was administered by a board of directors elected by the general assembly of the representatives of each affiliated society. This national society was able to contribute to the further development of savings and credit unions in Ethiopia until its liquidation with the passage of the 1976 Monetary and Banking Proclamation No. 99 and the 1978 Co-operative Societies Proclamation No. 138. The development of SACCs in Ethiopia up to 1978 is indicated in Table 9. By 1978, there were 60 SACCs in the country comprising 13,020 members with savings amounting to birr 4 million. The annual rate of growth of membership over the 1974-78 period averaged 12% and the average savings per member over the same period was birr 268. The average annual rate of growth in the number of SACCs was slightly higher: 14.7%.

The legal framework of existing SACCs in Ethiopia was provided by the 1978 Co-operative Societies Proclamation No. 138. The socialist orientation and character of this Proclamation are evident from the preamble and from its provisions. It was unequivocally provided that different types of co-operatives shall be organized for, *inter alia*, the objectives of (1) putting the means of production under the control of co-operatives and for transforming them gradually to collective property as may be necessary, and (2) conducting political agitation, and participating in the building up of a socialist economy (Article 3). The Proclamation provided for the establishment of Thrift and Credit Co-operative Societies along with three other co-operatives, namely, the Producers' Co-operative Societies, Service Co-operative and Housing Co-operative Societies[22]. It is evident from the proclamation that SACCs are associated with the development of socialism, a system about which the public is far from enthusiastic. However, the law has stopped short of providing the eventual transformation of individual savings into collective property. Proclamation No. 138 of 1978 rather provided that:

> Thrift and Credit Co-operatives may be formed by individuals working in one undertaking or office for making regular savings and to obtain credit for individual needs or productive purposes.

Table 9 Development of SACCs in Ethiopia, 1974-78

Year	Number of SACCs	Membership	Share and deposit (birr)	Share and deposit per member (birr)	Annual growth rate in no. of SACCs (%)	Annual growth rate of membership (%)
1974	35	8,332	1,999,680	240	-	-
1975	44	10,136	2,648,897	261	25.7	21.6
1976	47	10,767	2,840,906	263	6.8	6.2
1977	50	11,843	3,145,529	265	6.4	10.0
1978	60	13,020	4,056,732	311	20.0	10.0
Average	-	-	-	268	14.7	12.0

Source: Yassin Shifa, 1990, p. 42.

Here it is important to note the urban bias of the proclamation: peasant farmers, who constitute more than 80% of the labour force, do not work 'in one undertaking or office'.

The attempt to bring SACCs under the control of central authorities is evident from the Proclamation. Societies formed under Proclamation No. 241/1966 may be dissolved by the decision of a board set up to oversee co-operative societies where their objectives and membership are inconsistent with Proclamation No. 138/1978. Such co-operatives shall be liquidated where necessary. All SACCs are required to register with the National Bank of Ethiopia (Article 12.1d).

SACCs in Ethiopia since 1978: general considerations

Today SACCs are organized and supervised by the Savings and Credit Co-operative Development Office (SACCDO) of the National Bank of Ethiopia in accordance with the provisions of Proclamation No. 138 of 1978. SACCDO, among other things, sees to it that SACCs implement the following rules and procedures:

- Registering SACCs, issuing certificates of establishment and dissolving them when necessary;
- Formulating by-laws for the administration of SACCs;
- Auditing the accounts of SACCs;
- Paying members an interest rate of 6% per annum on their deposit with SACC;
- Making sure that credit released to members is in line with the National Bank's policy of controlling inflation;
- Keeping 25% of the gross profit of an SACC in the bank in the form of reserves in line with the practice prior to the 1978 proclamation;
- Making accounts available for auditing by the National Bank.

Otherwise, individual SACCs own and run their own co-operative societies as they see fit. The development of SACCs in Ethiopia since 1978 is shown in Table 10 and the Appendix. The number of SACCs in Ethiopia, which grew at an average of 23.5% per annum, increased from 60 in 1978 to 484 in 1990.

Similarly, membership, growing at an average rate 26.7% per annum, increased from 13,020 persons in 1978 to 118,037 in 1990. Savings also increased from birr 4 million in 1978 to birr 69 million in 1990. Savings per member averaged birr 349 over the same period. The total assets and reserves in 1990 amounted to birr 90 million and 4 million, respectively. Therefore, it

Table 10 Development of SACCs in Ethiopia since 1978

Year	Number of co-operatives	Membership	Contributions and savings deposit (birr)	Deposit per member (birr)	Annual growth rate of no. of SACCs (%)	Annual growth rate membership (%)
1978	60	13,020	4,056,732	311	-	-
1979	62	13,958	3,848,144	277	3.3	5.0
1980	160	19,337	3,954,204	204	158.0	2.7
1981	163	19,630	4,576,273	233	1.8	15.7
1982	171	22,371	6,219,311	278	5.0	26.4
1983	160	27,556	7,528,691	273	-6.4	21.0
1984	171	30,815	9,421,332	305	6.8	25.1
1985	218	38,166	12,970,879	340	27.5	37.7
1986	264	56,885	22,925,673	403	21.1	76.7
1987	309	63,540	23,300,011	367	17.0	1.6
1988	371	68,366	30,845,398	451	20.0	32.4
1989	419	98,973	50,406,195	509	12.9	63.4
1990	484	118,037	68,959,446	584	15.5	36.8
Average	-	-	-	349	23.5	28.7

Source: SACCDO, 1990.

is clear that SACCs expanded at faster rates during the 1978-90 period than the previous period. However, so far, only 27% of the labour unions have established SACCs (Hagos Hailu, 1990, p. 22).

SACCs are unevenly distributed over different regions of the country. As high as 60% of the total number of SACCs and 79% of the total co-operative savings are found in Addis Ababa. Many of the administrative regions have very few SACCs or none at all. Security problems, in addition to existing structural and other types of problems (see below), have hindered the expansion of SACCs throughout the country. Moreover, existing SACCs are established in urban areas, and there are none in the rural areas.

Government employees constitute the overwhelming majority of the membership. Presently, NGOs such as the Christian Children's Fund are increasingly facilitating the establishment of SACCs among recipients of foreign aid. SACCDO is encouraging the establishment of SACCs among small traders and workers in the informal sector. In fact, one of the most successful SACCs, the Assella Truck Loaders and Unloaders Savings and Credit Co-operative, was established within the informal sector (see below). SACCs are also being established by neighbouring urban-dwellers who have no financial common bond.

The development of SACCs in Ethiopia, as of 1989, compared to 25 other African countries, is indicated in Tables 11a and 11b. The number of SACCs in Africa totals 5,152, ranged from 1 in the Seychelles to 1,760 in Kenya[23]. Ethiopia is fourth after Uganda and the Cameroon. But, savings (deposit) per member, averaging US$230, ranged from a mere 50 cents in Uganda to 521 in Liberia. Membership as a percentage of the total population ranged from 0.004 in Nigeria to 6.2 in the Seychelles. Other countries with relatively high numbers of people joining SACCs are Rwanda (4%), Kenya (3.5%) and Mauritius (2.6%). The ratio for Ethiopia is 0.2%. Deposit per member as a ratio of GNP per capita ranged from 0.002 in Uganda to 2 in Ethiopia. Only two other countries in Africa, Kenya (1.3) and Liberia (1.2) have a savings ratio greater than 1. It can be inferred that the development of SACCs in Africa is uneven; a great deal of effort is required to raise SACCs from the existing low level of development, and the saving effort (as measured by the ratio of savings per member to GNP per capita) in Ethiopia is quite significant given the prevailing economic crisis and social problems.

The cost of organizing and overseeing credit unions in Ethiopia seems modest. The total expenses of SACCDO in 1989 were birr 173,464. Expenses per member and per union in 1989 stood at birr 1.5 and birr 358 respectively (Yassin Shifa, 1990, p. 45).

Table 11a Development of SACCs in Ethiopia and other African countries, 1989

Country	No. of credit unions	Members	Deposits (US$)	Population 1988 (millions)	GNP per capita (US$) 1988
Ethiopia	433	101,600	24,636,847	47.88	120
Benin	6	2,817	108,003	4.45	340
Botswana	24	4,760	765,826	1.21	1,548
Burkina Faso	50	6,606	1,148,708	8.8	230
Cameroon	240	72,358	36,570,503	10.67	1,010
Côte d'Ivoire	78	12,372	1,809,797	11.61	740
Gambia	83	3,795	47,553	0.81	220
Ghana	249	87,407	2,432,852	14.13	400
Kenya	1,760	826,000	394,277,514	23.88	360
Lesotho	73	30,000	971,445	1.68	410
Liberia	71	20,001	10,421,409	2.52	450
Malawi	95	15,835	920,061	7.75	160
Mauritius	71	26,200	3,026,601	1.00	1,810
Nigeria	45	4,285	931,540	104.96	290
Rwanda	109	269,421	44,598,927	6.75	310
Senegal	22	2,600	113,000	7.11	660
Seychelles	1	4,306	1,965,773	0.07	3,800
Sierra Leone	79	4,219	45,402	3.95	240
Swaziland	30	3,500	291,826	0.74	790
Tanzania	381	112,115	1,897,037	24.00	160
Togo	109	17,673	3,616,565	3.25	370
Uganda	751	322,000	152,928	17.17	280
Zaire	145	274,389	4,678,376	33.46	170
Zambia	169	109,930	2,892,348	7.53	290
Zimbabwe	78	9,223	1,412,563	8.88	660

Source: WOCCU, 1989.

The major problems retarding the growth of SACCs in Ethiopia can be classified into policy, structural, social and technical constraints. Some of the problems are that opportunities for productive investment are limited due to policy constraints and bureaucratic tangles. Some government ministries (e.g., the Ministry of Education) give only limited assistance to credit unions although the proclamation of 1978 (No. 138 article 20) provides that co-operatives be given government assistance. The abolition of the independent national union of SACCs in 1978 was followed by a termination of aid from

Table 11b Development of SACCs in Ethiopia and other African countries, 1989

Country	Deposits per member (US$)	Memberships as % of pop.	Deposit per member as a ratio of GNP per capita
Ethiopia	242.5	0.2	2.0
Benin	38.3	0.06	0.1
Botswana	160.9	0.4	0.1
Burkina Faso	173.9	0.08	0.8
Cameroon	505.4	0.7	0.5
Cote d'Ivoire	146.3	0.1	0.2
Gambia	12.5	0.5	0.06
Ghana	27.8	0.6	0.07
Kenya	477.2	3.5	1.3
Lesotho	32.4	1.8	0.08
Liberia	521.0	0.8	1.2
Malawi	58.1	0.2	0.4
Mauritius	115.5	2.6	0.06
Nigeria	217.4	0.004	0.8
Rwanda	165.5	4	0.5
Senegal	43.5	0.04	0.07
Seychelles	456.5	6.2	0.1
Sierra Leone	10.8	0.1	0.05
Swaziland	83.4	0.5	0.1
Tanzania	16.9	0.4	0.1
Togo	204.6	0.5	0.6
Uganda	0.5	1.9	0.002
Zaire	17.1	0.8	0.1
Zambia	26.3	1.5	0.09
Zimbabwe	153.2	0.1	0.2

Source: WOCCU, 1989.

some international donor agencies. This national association had its own central fund which was set up by over 20 individual SACCs contributing dues collected from their respective individual members. This central fund constituted a link between the individual member of an SACC and international credit unions. This fund could be used for the purpose of training SACC leaders and exchange of experience among national associations. Moreover, this central fund could evolve into a type of banking system if an enabling environment were created. The establishment of a credit union bank was a basic goal of SACCDO. In other countries a central fund plays a critical role in the development of credit unions. Interestingly, the central fund of those SACCs mentioned above is still not liquidated. It is possible that people in Ethiopia are suspicious of any organization associated, though remotely, with the idea of furthering the goals of socialism. There is a lack of confidence in government policies. Structural problems exist in the form of limited saving potential, inadequacy of infrastructure and limited expansion of markets. Social problems also pose obstacles in the way of expansion of credit unions. For example, there are plausible suspicions that money lenders' attempt to resist the formation of credit unions for fear of losing clients. SACCDO could not facilitate the expansion of SACCs according to plan due to technical problems such as shortage of skilled manpower. Some SACCs are not operating because of such factors as the merging of different organizations or business contraction in the private sector arising from shortage of raw materials.

One conspicuous point in the development of SACCs in Ethiopia is the absence of credit unions in the rural areas where more than 80% of the population live.

Case studies

A close look at the operations of individual SACCs can be provided by taking selected case studies of outstanding co-operatives. SACCDO identifies a model SACC according to the following criteria:

- Has its own office and independently and properly manages its account;
- Has reputed leadership which attends to the interests of its members and implements the principles of the savings and credit co-operative;
- Has close and healthy relations with SACCDO;
- Exhibits sustainable growth over a given period of time.

Of the model SACCs, case studies are provided of the following organizations: Ethiopian Airlines, Telecommunication Authority, Assella Truck Loaders and Unloaders Labour Union, and Addis Ababa University.

Case One. The first savings and credit co-operative in Ethiopia was The Ethiopian Airlines Employees' Savings and Credit Co-operative. It was established in January 1964 with an interest-free loan of US$26,000 from the employer. By late 1974, savings capital amounted to US$520,000, the equivalent of 74% of the saving capital of all Ethiopian credit unions at that time (Kirsch and Goricke, 1977, p. 114). Today, this credit co-operative claims one of the largest capital bases: birr 10 million. However, its share in the total capital of all credit unions has sharply fallen from 74% in 1974 to 11% in 1990, while its share in the total number of members in the country is a mere 2.3%. This union extends loans amounting to a maximum of birr 15,000 (the biggest in Ethiopia) to its members totalling 2,700 persons. Its capital per member, amounting to birr 3,704, is ten times the average for the country.

The union renders its members various services other than savings and credit. It has its own fuel station. Presently, it is planning to invest in other income-generating activities such as the sales of tyres, running of a cafeteria, distribution of petrol, and sales of basic textile goods and footwear to its members.

Case Two. The Telecommunication Authority Employees' Savings and Credit Co-operative[25] is among the largest and most successful unions in Ethiopia. It was established in 1969 with an initial capital of birr 100,000, half of which was subsidized by the Telecommunication Authority. Initially, members saved the fixed sum of birr 100 per month irrespective of the size of their salaries. The maximum loan granted to members was birr 500 repayable in one year. Today, a uniform rate of savings, 8% per month, is obligatory for members. Membership has grown to 5,000 persons (90% of the total employees of the Telecommunication Authority). The total capital of this credit union is more than birr 12 million (more than 13% of the capital of all SACCs in Ethiopia). The maximum loan granted to a member is birr 12,000 repayable in seven years at an interest rate of 1% per month on the remaining balance. A borrower is entitled to additional loans once a portion of the previous loan has been repaid according to schedule. The purpose of lending does not matter as long as there is money to lend. In case there is a shortage of funds, priority is given to needy borrowers. There are times when the credit union borrowed money from the Authority to cover occasional shortfalls. For example, in 1988 and 1989, the union borrowed birr 870,000 from the Authority in order to meet its members' growing demand for loans.

In addition to the forced savings of 8%, members could voluntarily save any amount they would like under a special arrangement with the union. The union keeps voluntary savings in a current account so that savers can take back their savings any time they wish to do so. Moreover, the union pays voluntary savers an interest rate of 6% per annum. Today the special type of savings amount to birr 38,000. The union gives service to voluntary savers free of charge. This type of savings is attractive to savers, unlike that of banks, because of the ease with which they are able to examine their account and the physical accessibility of the union's office to members. Moreover, members may feel a sense of self-reliance and solidarity by making use of their own democratically-instituted union.

The union has also initiated an incipient form of insurance system on an experimental basis.[26] Members jointly buy an insurance policy by contributing 50 cents each every month to the common pool deposited with the union. This reserve fund is intended to defray possible defaults arising from a member's inability to repay loans due to death. The advantage of the reserve fund is to relieve legal beneficiaries and guarantors of the deceased member of the burden of paying debt. In this way it is expected that 'the debt dies with the debtor'. Moreover, it is intended that the scheme contribute to reductions in the cost of litigation arising from defaults. Presently, the amount of the reserve is very small (birr 2,489), and thus far, no payments have been made from this fund.

The union grants loans to members to cover medical expenses incurred by their families. As to members themselves they are entitled to free medical service provided by the Authority. The union provides services to the employees' *iddir* and to the labour union. Both institutions have separate current accounts with the credit union. These accounts can be considered as joint accounts since they involve pooled funds. To date, the *iddir* and the labour union have, respectively, balances amounting to birr 30,000 and 200,000 with the credit union. This money is deposited in a current account with the Commercial Bank of Ethiopia.

The Telecommunication Authority provides various assistance to the union in the form of an office for eight employees and some office equipment. It pays the salary for one full-time union employee and provides a half-day off-duty for committee members to attend weekly meetings. It is also due to the strong support given by the Authority that the union gives efficient services to members working outside Addis Ababa. Presently, the union is considering possibilities for initiating investment in different income-generating ventures.

A brief summary of the financial statement of the credit union in 1989 is as follows. The total income in 1989, amounting to birr 1,327, 903, is more than that of the previous year by 24.7%. The total expenses in 1989, amounting to birr 736,308, are greater than that of 1988 by 79.7%. The main reason for such a rise in expenditure in 1989 is the payment made to the special fund raised by the government in response to the call of the motherland in accordance with Decree No. 2/1980 (E.C.) of the Council of Ministers.[27] The Decree rules that savings and credit co-operatives should contribute 25% of their incomes from interest. The amount paid was birr 235,494. The net profit in 1989, which is down by 9.8% as compared to 1988, is birr 591,595. The liabilities and capital in 1989 were birr 12,155,378. The union distributed among its members accumulated profit (from 1983-87) amounting to birr 1,252,637 in accordance with the decision of the general assembly of members.

Case Three. The Assella Truck Loaders and Unloaders' Savings and Credit Co-operative (ATSACC)[28] is unique in several respects. First, it was established by daily labourers operating in the informal sector. Second, it is perhaps the only model co-operative established outside Addis Ababa.

ATSACC is located 176 km to the south of Addis Ababa in Assella, the regional capital of Arsi administrative region. Assella is the centre for one of the few prosperous agricultural regions in the country. The origins of this co-operative can be traced to 1974 when some 80 daily labourers formed a self-help association by contributing 15 cents each periodically and started depositing the joint fund in the bank. Unfortunately, the association had to be terminated and the joint fund distributed among members two and a half years later as a result of disagreements arising among members. However, in 1977 a few of the former members of the disbanded association were organized into a labour union by local officials of the Ministry of Agriculture. Later, members of the union were able to form a savings and credit association following a seminar held in Assella regarding the advantages and organization of such an association. In 1979, ATSACC was granted legal status upon registration with the National Bank of Ethiopia.

Today, ATSACC consists of 112 members (all males). The daily earnings obtained from loading and unloading agricultural products and manufactured goods are deposited in the bank. Members are paid a uniform salary of birr 170 per month in two instalments. Physically weak members get the same salary as the stronger ones but are assigned to light tasks. Mechanisms are developed to avoid seasonal fluctuations in payment to members.

The total savings and assets of ATSACC in 1990 amounted to birr 198,004 and over 257,614, respectively. The co-operative has its own offices and a hall which cost more than birr 50,000. The co-operative also has a lounge and common bath rooms which are also used by the public upon payment of service charges. About 17 of the members have built their own private houses.

The co-operative also has a type of insurance scheme which is akin to the *iddir*. A member who is ill and unable to work due to causes not related to work in the co-operative enterprise is entitled to six month's full salary. A member who is ill or disabled due to causes arising from working conditions in the co-operative enterprise is entitled to full salary until he recovers and starts work. Medical expenses incurred by a member are covered by the co-operative. In the event of the death of a member, all other members contribute birr 5 each as assistance to the family members of the deceased.

Self-imposed discipline is strictly observed by members. A person violating rules and regulations of the co-operative may be fined up to 50% of his monthly salary. It is interesting to note here that the labour union acts also as an employer of the members. Those members who are engaged in office work are exempted from manual work. The office of the co-operative enterprise plays an active role in the promotion of savings and credit co-operatives in the area by demonstrating the advantages of such an association.

The co-operative has plans to initiate additional income-generating ventures. It has already installed its own bakery. A considerable number of members have their own side-line activities including small-scale dairy farms.

Case Four. Addis Ababa University Employees' Savings and Credit Co-operative (AAUSACC)[29] is one of the fastest growing credit co-operatives in Ethiopia. Capital per member in 1990 was nine times that of 1983, while the national average for the same period was only doubled. It has been reported that a certain individual member was able to save as much as birr 11,000 with AAUSACC. It was established in 1982 with an initial capital amounting to birr 10,700 and with membership totalling 470 persons. During its initial period, the Addis Ababa University granted it an interest-free loan amounting to birr 83,500. The university also stopped granting salary advances to its employees in order to encourage them to join the co-operative in the hope of getting a better source of credit. Membership in 1990, though limited to the Addis Ababa campuses, consisted of 1,765 persons (Table 12). Its capital in 1990 amounted to birr 1,973,509. Per member capital, amounting to birr 1118.1, is a little less than double the national average. The maximum loan has been raised from a mere birr 300 in 1982 to 7,000 at present.[30] A member is entitled to a maximum of eight times his (her) deposit. Loans up to birr 5,000 are repayable in 36 months and those between birr 5,000 and 7,000 in 48 months. Loans are granted to the extent possible only to the needy members in accordance with the by-laws of the co-operative. Initially, there was suspicion that some members repeatedly borrowed from the co-operative for unworthy purposes or for the purpose of lending to others at high interest rates.

AAUSACC has not yet distributed among its members its accumulated profit, which amounts to birr 101,777.[31] However, members are being paid interest on their savings. For example, in 1990 a sum of birr 87,907 was distributed among members in the form of interest payments.

The cost of running the co-operative is quite modest. During the year ending June 1990, it amounted to birr 14,429 (of which salary amounted to birr 9,452). Operating costs per member amounted to birr 8 per annum or 16%

of the annual interest payment to members. It is only with three full-time office workers that the co-operative serves 1,765 persons.

The impressive success of AAUSACC is partially attributable to the effort of the committee officials and the office workers, the efficient system of accounting, the relatively high per capita income of a considerable number of the employees, a high degree of appreciation of the advantages of savings and credit co-operatives by the employees, and a modest degree of assistance provided by the university administration.

Table 12 Addis Ababa University Employees' Savings and Credit Co-operative membership and capital

Year	Number of members	Capital (birr)	Capital per member (birr)
1982	470	10,700	22.8
1983	747	92,249	123.5
1984	910	225,867	248.2
1985	1124	513,550	456.9
1986	1342	757,578	564.5
1987	1453	1,026,042	706.1
1988	1557	1,392,443	894.3
1989	1634	1,593,883	975.4
1990	1765	1,973,509	1118.1

Source: Data obtained from AAUSACC and from survey of university employees.

On the basis of the results of the survey of employees of Addis Ababa University, as high as 90.7% of the sample employees reported that they had belonged to AAUSACC (Table 13). The respondents gave different reasons for joining this credit union. The most common response was the need to save money and to borrow when the need arises. Some of the respondents indicated the relative advantages of credit unions over alternative means of savings and sources of credit. They emphasized the fact that the scheme of deducting deposits directly from the salaries of the employees made regular savings possible. There are those who said that they have now developed savings habits resulting from their involvement in the credit union; 41% of the sample reported that they had no habit of saving before they joined the union (Table

13). There are those who stressed the possibility of saving a large sum of money without feeling the burden of doing so. Some respondents mentioned the possibility of borrowing a large sum of money at a reasonable interest rate. Some of them have also appreciated the long maturity period of the loans received from AAUSACC. It is also interesting to note that a considerable number of respondents indicated that they use their savings when they retire.[32] It was for these reasons that 91% of the sample employees (Table 13) indicated that they had benefitted from joining the union.

The survey results have also revealed that the savings rate, which averaged 6%, is lowest (5.2%) in the low-income group. Monthly savings per participant, averaging birr 32.4, systematically increased from birr 9.4 in the low-income group to birr 50.8 in the high-income group.

The sample employees gave different reasons for borrowing money from AAUSACC. Most of them indicated that they borrowed to purchase expensive consumer durables and to construct or renovate private houses. A few mentioned such reasons as the need for paying medical expenses for family members, sending children abroad for education and covering wedding expenses. One respondent said that he borrowed money in order to pay the registration fee (birr 150) charged by Addis Ababa University employees' *iddir*.

Table 13 Participation in AAUSACC

Variables	Low income	Medium income	High income	Average
Average salary per employee (birr)	180.2	564.2	795.5	513.3
Income per household (birr)	219.0	737.0	1738.0	898
Per cent of sample belonging to AAUSACC	88.9	87.0	96.3	90.7
Savings as% of average salary per employee	5.2	6.5	6.4	6
Savings per participant (birr)	9.4	36.9	50.8	32.4
Per cent of sample not saving before joining AAUSACC	36.4	46.9	40.4	41.2
Per cent of sample benefiting from AAUSACC	82.6	97.8	94.2	91.5

Source: Data obtained from AAUSACC and from survey of university employees.

According to information released by the Office of AAUSACC, credit uses are for, in order of importance, renovation or completion of private houses (38.6% of the total borrowers), purchase of household durables (21.9%), expenditure on personal problems (13.7%), medical expenses (7.4%), land tax or house rent (6.2%), and installation of piped water or electricity (4.3%). Here, it should be noted that 60% of the credit is directed towards investment projects in the form of house construction and purchases of household durables.

Some respondents complained (though not included in the questionnaire) that the interest rate charged by the union (1% per month on the unpaid sum) is unbearable.

Finally, consideration is given to the extent of participation in credit co-operatives, *vis-à-vis iqqub* and *iddir*, on the basis of summary information generated by the survey of employees of Addis Ababa University (see Table 14 and Figure 2). According to this survey, of the three institutions considered in the study, the credit co-operative (i.e. AAUSACC) is the most popular one among employees of Addis Ababa University. As high as 91% of the sample employees from all income groups are members of the AAUSACC. The ratios for the *iddir* and *iqqub* are 83 and 48%, respectively. The *iqqub* is perhaps gradually giving way to the credit co-operative. The credit co-operative is preferred to the *iqqub* because the waiting time in general is short (there is no need for drawing lots or 'buying' a lot). The credit co-operative makes it possible to save on a regular basis for a much longer period of time. The size of loans that can be obtained from the credit co-operative is, in general, greater than collections from *iqqub* organized by salary-earners, and credit co-operatives make possible savings for general and precautionary purposes, unlike *iqqub* which is often established for a specific purpose. The extent of participation in the credit union is positively associated with age, level of education and per capita income.

On the other hand, it is unlikely that credit co-operatives substitute for the *iddir*. Some of the benefits which are provided to members by the *iddir* and not by credit co-operatives are culturally appropriate social interactions and solidarity among the participants; equality among members irrespective of differences in economic and social status; provision of materials such as tents, chairs and utensils when a participant mourns for a deceased family member.

The place of SACCs *vis-à-vis* the formal and informal sectors is depicted in Figure 2 in which linkages between the financial institutions are partially shown by way of a summary. Rural households have no access to the formal and informal financial sectors. On the other hand, they do make use of the *iqqub* and *iddir*. Urban households have access in varying degrees to the formal, semi-formal and informal sectors. SACCs are linked to both the banking system and the *iddir*. The link between SACCs and the insurance system is at an embryonic stage in its development. Banks are linked to SACCs as well as to the *iqqub* and *iddir*.

Summary and conclusion

Savings and credit co-operatives have huge potential for savings mobilization in Ethiopia. Although the rate of growth of these co-operatives has been relatively high since 1978, much remains to be done to realize their existing potential. The case of the model co-operatives has brought to light certain important points. The ingenuity and creativity of those successful co-operatives are admirable; they are actively investing in income-generating activities. The weaker co-operatives have much to learn from the successful ones. The case of the daily labourers' co-operative has demonstrated that credit unions can thrive even among the uneducated and poor workers operating in the informal sector.

Table 14 Participation in AAUSACC, *iddir* and *iqqub*: employees of AAU

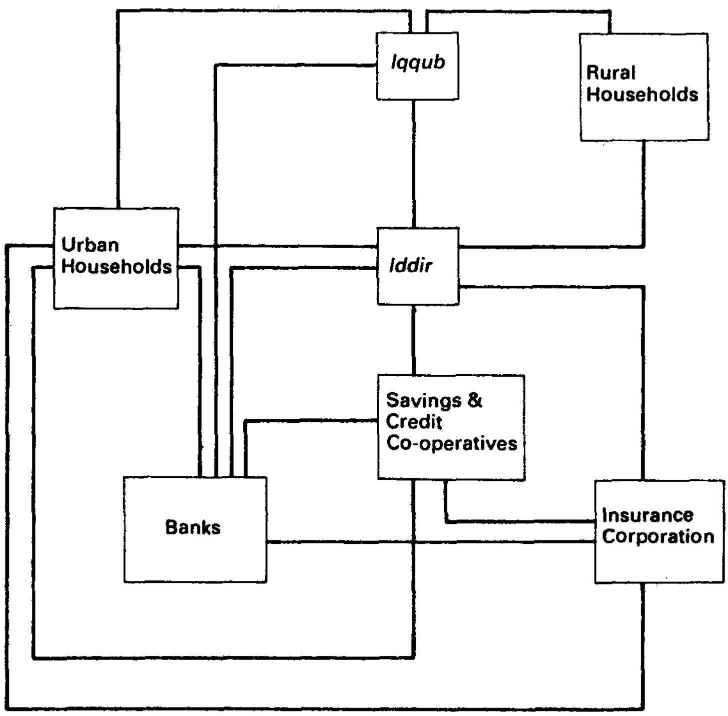
Variables	Low income	Medium income	High income	Average
Average age	34.0	36.7	38.4	36.4
Proportion of males (%)	53.7	59.3	64.8	59.3
Proportion of married persons (%)	61.1	59.2	79.6	66.6
Average household size	5.7	5.6	5.4	5.6
Degree-holders as % of samples	3.7	34.6	80.0	39.4
Income per household (birr)	219.2	737.9	1,737.6	898.2
Per capita income (birr)	55.1	199.4	399.6	218.0
Proportion belonging to AAUSACC (%)	88.9	87.3	96.3	90.8
Proportion belonging to *iddir* (%)	83.3	83.3	81.5	82.7
Proportion belonging to *iqqub* (%)	41.0	48.0	56.0	48.3

Source: Data obtained from AAUSACC and from survey of University employees.

Credit co-operatives have varying degrees of linkage with the informal and formal sectors. The linkage with the *iddir*, in particular, is interesting. There are cases where the *iddir* has become an integral part of a credit union. The

Assella Truck Loaders and Unloaders' Co-operative is a case in point. The origin of this co-operative was traced to an *iddir*. In the case of the Telecommunication Authority *iddir* members deposit their funds with the credit union. The latter, in turn, deposit the money in the bank. In this way, the semi-formal sector creates linkages between the informal and formal sector. The credit unions are also developing their own insurance system while the formal sector is attempting to sell insurance policies to the unions.

Figure 2 The informal sector and financial flows in Ethiopia



The linkages between credit co-operatives and labour unions are also interesting. The Assella Truck Loaders and Unloaders Labour Union has become an integral part of the credit union. The labour union of the Telecommunication Authority deposits its funds with the credit co-operatives. Inter-institutional co-operation can promote the growth of credit co-operatives.

The study has revealed the possibility that people in the informal sector can mobilize savings and establish small-scale enterprises by organizing themselves into credit co-operatives. Credit co-operatives have affected the savings behaviour of participants. The survey of the employees of Addis Ababa University has revealed that credit co-operatives might have savings-habit-creation effects and sources of savings-displacement effects.

It is possible to remove or mitigate most of the constraints hampering the expansion of credit co-operatives in the country. An independent national credit co-operative should be established on the basis of democratic participation of member co-operatives. Credit co-operatives should disassociate themselves from the idea of socialism and furthering of political goals. Ways and means should be found to extend credit co-operatives into the rural areas. Credit co-operatives need vigorous government assistance.

Members themselves should assert their democratic rights in running their own co-operatives. It is not clear, for example, why the academic staff of Addis Ababa University are under-represented in the committees of the co-operative.

The leadership of the co-operatives should strictly observe the basic principles and goals of credit co-operatives. Loans should be granted only for worthwhile purposes. Dividends should be distributed to members on time. It is not clear why the distribution of the dividends is delayed in some co-operatives.

Officials of savings and credit co-operatives claim that they charge an interest rate of 1% per month on the unpaid balance of loans granted to members. They assert that this amounts to an average of 6.5% per year. This assertion has been challenged by Hailu Legesse (1990) who attempted to demonstrate that the implicit interest rate is rather between 11 and 12% per year. Members feel that the interest rate charged by savings and credit co-operatives is high. For example, some sample employees of Addis Ababa University said that the interest rate is quite 'unbearable'.

As the credit co-operative is a newly-emerging financial institution in Ethiopia, some of the issues which need clarification are existing loan interest rates, whether loan applications should be considered only for worthwhile purposes and whether unions should move into profit-making activities. In general, it is interesting to investigate the extent to which the principles of credit co-operatives are applied to Ethiopian conditions.

V General conclusions

The following conclusions, as well as the foregoing ones, are subject to limitations in the sample size of this study. The tentative conclusions made here need to be confirmed by further studies.

The *iqqub* and *iddir* expanded in urban areas 'as a vast unconscious process of arousing and co-ordinating energies to meet the novel realities of Ethiopia's current historical situation' (Levine, 1972, p. 281). The modern self-help associations in urban areas must not be seen as results of socio-cultural constraints in the traditional sector but as the basis for incipient intermediate financial technology developed over time in response to the growing demand for financial and social security by people already uprooted from the village-level communal life but still living within a 'penny economy'. In a society where monetary relations have not yet sufficiently developed, culturally appropriate financial institutions will remain indispensable. People who might not qualify for bank loans or insurance policies resort to the *iqqub* and *iddir*. Interestingly enough, even those who do qualify for these facilities still use the *iqqub* and *iddir* due to the additional benefits they get from these institutions. Social solidarity and friendship are among such benefits. Moreover, the informal sector appears to have better access to information about the credit-worthiness of a participant than the formal sector.

The modern financial institutions hardly exist in rural areas. However, the study suggests that the notion that the poor are without resources is questionable. The existence of large numbers of *iqqubs* and *iddirs* in the rural areas suggests that there is a demand for savings and lending services and some degree of excess liquidity. Moreover, the popularity of these institutions suggests that peer pressure is perhaps the best method of ensuring savings in poor rural communities. Both the *iddir* and *iqqub* can be used as a launching pad for modern financial institutions in the rural areas.

The semi-formal sector, savings and credit co-operatives, could form a bridge between the formal and informal sectors. For example, the expansion of the savings and credit co-operatives may reduce the importance of the small-scale *iqqubs* in urban areas. In the long run, it may be possible to establish a form of sustainable intermediate financial technology on the basis of existing culturally appropriate institutions.

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

With appropriate government policies it may be possible gradually to transform existing 'traditional' financial institutions into modern ones. An increase in deposit interest rate, for example, may encourage people to keep *iqqub* money in the bank. The big traders' *iqqub*, for example, has the potential for developing into a banking system. The Ethiopian Teachers' Association *iddir* is already attaining the status of a medium-size insurance enterprise.

The realization of the potential of existing informal (and semi-formal) financial institutions depends, to a great extent, on the degree of appropriateness and effectiveness of government policies. Existing policy constraints need to be removed. More government support should be given to the *iqqub*, *iddir* and credit co-operatives. Both *iqqub* and *iddir* need legal protection from embezzlement and mismanagement by swindlers. The by-laws and book-keeping systems of these institutions should be updated and systematized.

This paper has attempted to throw some light on the efficiency and dynamism of a component of Ethiopia's hidden economy, the informal financial sector. Policy makers should create an enabling environment rather than stifling the energies and creativities of people participating in these indigenous and culturally appropriate financial institutions.

The following issues can be identified as agenda items for future research:

1. When did the *iqqub* and *iddir* actually originate, and how did they evolve into their present form?
2. What are the coping mechanisms adopted by the informal sector to withstand the stifling policies of a socialist-orientated government?
3. What additional benefits do households get by simultaneously participating in different types of informal, semi-formal and formal financial institutions?
4. What are the contributions of the informal sector to domestic savings and to the promotion of small enterprises?
5. How does the formal sector perform relative to the informal sector?
6. Do senior officials working in banking and insurance enterprises participate in *iqqub* and *iddir*?

Appendix

Savings and Credit Co-operatives in Ethiopia July 1978 – December 1990

	Number of co-operatives	Membership	Contributions and savings (birr)	Outstanding loans (birr)	Reserves (birr)	Total assets (birr)
1978	60	13,020	4,056,732.-	2,050,546.-	210,851.-	4,309,753.-
1979	62	13,958	3,848,144.-	2,432,829.-	21,873.-	5,336,122.-
1980	160	19,337	3,954,204.-	2,407,245.-	220,999.-	5,468,655.-
1981	163	19,630	4,576,273.-	3,319,712.-	251,775.-	6,268,219.-
1982	171	22,371	6,219,311.-	7,383,086.-	401,988.-	7,854,249.-
1983	160	27,556	7,528,691.-	8,136,677.-	437,895.-	9,996,753.-
1984	171	30,815	9,421,332.-	9,153,030.-	723,338.-	14,084,043.-
1985	218	38,166	12,970,879.-	12,561,829.-	881,672.-	19,239,674.-
1986	264	56,885	22,925,673.-	23,517,531.-	1,738,320.-	29,887,557.-
1987	309	63,540	23,300,011.-	23,644,390.-	1,676,556.-	30,332,813.-
1988	37	68,366	30,845,398.-	33,375,253.-	2,148,308.-	42,053,667.-
1989	419	98,973	50,406,195.-	52,104,599.-	2,173,238.-	69,926,742.-
1990	484	118,037	68,959,446.-	69,834,856.-	4,019,913.-	90,781,491.-

Source: SACCDO, Addis Ababa

Notes

1. Rural credit, averaging birr 20 per household, was put to both productive (29%) and non-productive (71%) uses. The proportion of farmers using credit ranged from 21% in Illubabor Province to 41% in Arsi Province. This credit was used, in order of importance, for agricultural inputs (27%), food (24.8%), clothing (12.4%), social/religious (10.7%), medical (9.9%) and for payment of taxes and debts (9.8%) (Ministry of Agriculture, 1984, pp. 117-21).

2. In this study we will use the term *informal* rather than 'non-institutional' or 'unorganized' financial market. The justification for using the term *informal* is aptly given by Chandavaskar (1985):

   > The term *informal* is arguably more logical and descriptive than either 'unorganized' (since it can be as organized in its own way as the organized sector) or 'non-institutional' (since there are also institutions in the non-institutional sector). In many respects, its distinguishing characteristic, which is also its primary economic rationale, is the informal nature of its financial activities. It is the extent of its informality that confers differential economic advantages over the institutional sector.

3. Marxists consider money lenders simply as exploiters; for example, Ernest Mandel asserted that 'when money economy becomes widespread, usurer's capital in the strict sense loses its preponderant position and retreats to the dark corners of society, where it survives for centuries at the expense of the small man' (1962, p. 102).

4. The *iqqub* is spelt in different ways in the literature; for example, as *iqub* (in Pankhurst and Endreas Eshete, 1958), as *equb* (in Comhaire, 1966; Alemayehu Seifu, 1969; Baker, 1986; Aspen, 1989; Levine, 1972), as *ekub* (in Mauri, 1987), as *ikub* (in Girma Begashaw, 1978).

In this study, we spell it as *iqqub* as per personal communication with experts in linguistics. Similar arguments apply to the *iddir* (see below).

5. Some scholars argue that the *iqqub* as well as the *iddir* were first practised by the Gurage people of Ethiopia (Levine, 1972; Pankhurst and Endreas Eshete, 1958; Mamo Wudneh, 1983, p. 5).

6. The Bank of Abyssinia issued the first bank notes in 1914/15 (Belay Gidey, 1987, p. 55).

7. The Insurance Corporation's plan was to cover contributions due to individual members in the event of the death of members of an *iqqub*. According to personal communications with the relevant department of the Corporation, not a single *iqqub* has so far responded to the scheme.

8. This information refers to the biggest of the *iqqubs* that a respondent may have joined during the reference period.

9. The author would like to thank the PPDE Project of the IDR of Addis Ababa University for providing assistance towards the undertaking of the survey required for this section.

10. The forest land consists mainly of *gesho* (a type of bush used for brewing local beer) and eucalyptus trees grown for sale in the nearby Debre-Sina town. The annual proceeds from sales of *gesho* alone run into hundreds of birr per member of the co-operative.

11. 'Villagization' refers to a scheme by which rural households, formerly living in dispersed settlements, are transferred to nuclear settlements as a result of the government's policy of re-organizing existing rural settlement patterns. So far, about one-third of the total rural population has been transferred to the nuclear villages. Those households who have moved to the nuclear villages are referred to as 'villagized' households.

12. The list of farmers delivering grain to the Agricultural Marketing Corporation in 1988-89 was used to identify 'active farmers'. Such farmers number about 144.

13. Banks provide *iddir* with security against robbers, some degree of protection against embezzlement and interest on time savings (6% per annum).

14. A community *iddir* is different from other types of *iddir*. It consists of heterogeneous groups of people living within a given geographical area; it is recognized by the authorities concerned; and it often has its own tent and store house.

15. The distinguishing feature of a family *iddir* is that membership is either limited to blood relatives or involves participation of both husbands and wives. Food and drinks are often served on the occasion of the meeting of members of a family *iddir*.

16. *Iddirs* also make contributions to the special funds often set up during the time of wars. For example, *iddirs* may surrender their tents to the government.

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

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

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

20. Details of the origins and development of SACCs at the international and national levels are given in Kibirige (1980, pp. 7-9); Kirsch and Goricke (1977, pp. 114-29); Yassin Shifa (1990, pp. 27-41); SACCDO (1989, pp. 5-9), and Hagos Hailu (1990, pp. 13-18).

21. The first part of this section draws heavily on Landuber Araya (1983, pp. 37-54) and Yassin Shifa (1990, pp. 27-41). The development of

SACCs between 1970 and 1974 is treated in Kirsch and Goricke (1977, pp. 114-29).

22. Of the four types of co-operatives provided by the proclamation, producers' co-operatives have utterly failed to develop both in urban and rural areas. Agricultural producers' co-operatives, for example, were able to cover less than 4% of the total peasant farmers before the decollectivization process was initiated in 1990. Service co-operatives, though established on a larger scale both in rural and urban areas, have played a limited role in the economy. Housing co-operative societies are limited to an insignificant number of urban dwellers.

23. Africa's giant credit union, Harambee Savings and Credit Co-operative, is found in Kenya. It has 93,432 members with savings amounting to shillings 751 million (*World Reporter*, 1990; *The Saver*, 1990).

24. The information for this section is obtained from the Office of the Savings and Credit Co-operative of Employees of Addis Ababa University.

25. The data for this section is obtained from the Telecommunication Authority Employees' Savings and Credit Co-operative Office.

26. SACCDO has disclosed that some SACCs are going to buy insurance policies for their members. The Ethiopian Insurance Corporation is going to be involved in the scheme (*The Saver*, 1990).

27. The Decree applies to all individuals or organizations earning any sort of income. Similar decrees are common in Ethiopia. Contributions are rquired mainly for the purpose of defense and rehabilitation of victims of drought and famine.

28. This section heavily draws from *The Saver,* 1990, and interviews with officials of SACCDO.

29. This section is based upon data obtained from the Office of AAUSACC and the survey of employees of Addis Ababa University.

30. There is a plan to raise the maximum loans to birr 10,000.

31. The accumulated profit consists mainly of interest earnings on loans, interest paid by banks on deposits, registration fees and miscellaneous incomes.

32. But, it is interesting to note that of those who have not yet joined the union, many were approaching the retirement age of 55 years.

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